

**Supervisory Board Report  
on OMV PETROM S.A.'s separate  
Financial Statements prepared in accordance with  
Ministry of Finance Order no. 2844/2016**

In 2017, the Supervisory Board thoroughly reviewed the position and prospects of OMV Petrom S.A. ("OMV Petrom" or 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 supervised the Executive Board on the management of OMV Petrom, monitored its work and we were involved in the Company's key decisions, always following a comprehensive analysis.

The Supervisory Board received 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 significant matters for OMV Petrom in the plenary meetings, based on the reports of the Executive Board.

The separate financial statements and audit report were presented for Supervisory Board examination in a timely manner. Ernst & Young audited the 2017 separate financial statements, read the Directors' Report and has not identified information which is not consistent in all material respects with the information presented in the separate financial statements, and issued unqualified audit opinion. The auditors attended the relevant meeting of the Audit Committee convened to review the financial statements. The Audit Committee discussed the separate financial statements with the auditors and examined them carefully. The Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual separate financial statements, including the management report.

We have also reviewed and analyzed the attached Report of the Executive Board (Directors' Report) presented as Appendix 1 which gives a true and fair view of the development and performance of the business and the financial position of OMV Petrom, together with a description of the principal risks and associated uncertainties as of December 31, 2017.

Hence, the separate financial statements prepared in accordance with Ministry of Finance Order no. 2844/2016 were approved in today's Supervisory Board meeting in line with the Audit Committee's recommendation and will further be submitted for approval in the Ordinary General Meeting of Shareholders to be held on April 26, 2018.

Furthermore, we have reviewed and approved the report on payments to governments for the year 2017, prepared in accordance with Chapter 8 of the Annex 1 of Ministry of Finance Order no. 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council.

Bucharest, March 19, 2018



Rainer Seel

President of the Supervisory Board

## Appendix 1

### **Directors' Report on OMV PETROM S.A.'s separate Financial Statements prepared in accordance with Ministry of Finance Order no. 2844/2016 and in compliance with the Regulation no.1/2006, Appendix 32, issued by the National Securities Commission**

#### **Overview of the Company's nature**

The Company's headquarters is located at Coralilor Street no. 22, district 1, Bucharest, Romania. The Company was set up according to the Government Ordinance no. 49/October 1997, approved by Law no. 70/April 1998. The Company is registered with the Trade Register under number J40/8302/1997 and has as unique fiscal registration code RO1590082. The Company has as main activities exploration and production of hydrocarbons, sale of natural gas, refining of crude oil, marketing of petroleum products, as well as production and sales of electricity. OMV Petrom unfolds its activity either directly or through its affiliates in Romania, Kazakhstan (only exploration and production of hydrocarbons) and Bulgaria, Serbia and Republic of Moldova (only marketing of petroleum products).

An 18.35% stake of the Company's capital represents the free float, traded as shares within the Premium category of the Bucharest Stock Exchange, under SNP symbol and as global depositary receipts (GDRs) within the Standard category on the main market for listed securities of the London Stock Exchange under the symbols "PETB" and "PETR". Market capitalization as of December 29, 2017 was RON 16,200,214,984.

The Company is the parent company of OMV Petrom Group ("the Group"). Separate individual financial statements for the year ended December 31, 2017 are prepared in accordance with International Financial Reporting Standards (IFRS), as the Ministry of Finance Order (MOF) no. 2844/2016 stipulates that Romanian listed companies must prepare financial statements in accordance with IFRS as endorsed by European Union (EU). The annual consolidated financial statements are also prepared by the Company in accordance with IFRS as endorsed by the EU. In its turn, the parent Company OMV Petrom S.A. is part of the OMV Group which prepares consolidated financial statements at the level of OMV Aktiengesellschaft, with its registered office at Trabrennstrasse 6-8, 1020 Vienna, Austria. The annual consolidated financial statements of the OMV Petrom Group and OMV Group are public and may be obtained from the companies' websites, i.e. [www.omvpetrom.com](http://www.omvpetrom.com) and [www.omv.com](http://www.omv.com).

OMV Petrom S.A. ("OMV Petrom") has vertically integrated activities and is organized into three operating business segments: Upstream, Downstream Oil and Downstream Gas, while the management, the financing activities and certain service functions are concentrated in the Corporate & Other segment.

As at December 31, 2017 and 2016 the total share capital amounted to RON 5,664,410,833.50, representing 56,644,108,335 shares (December 31, 2016: same number) with a nominal value of RON 0.1 per share.

The shareholders' structure as at December 31, 2017 is presented below:

	<b>No. of shares</b>	<b>Percent</b>
OMV Aktiengesellschaft	28,894,467,414	51.011%
Romanian State	11,690,694,418	20.639%
Fondul Proprietatea S.A.	5,663,548,078	9.998%
Legal entities and private individuals	10,395,398,425	18.352%
<b>Total</b>	<b>56,644,108,335</b>	<b>100.000%</b>

As of October 20, 2016, the GDRs have been admitted to listing on the standard segment of the official list of the United Kingdom Financial Conduct Authority and admitted to trading on the London Stock Exchange's main market for listed securities (each GDR representing 150 shares).

As of December 31, 2017 the number of GDRs was 1,068,292, equivalent of 160,243,800 ordinary shares, representing 0.283% of the share capital.

In September 2017, Fondul Proprietatea sold a 2.567% stake in OMV Petrom, through an Accelerated Book Building (ABB) of shares and GDRs.

## **1. Analysis of the company's activity**

### **1.1. a) The activity developed or which is to be developed by the company and its subsidiaries**

OMV Petrom develops the following main activities:

- The exploration and production of crude and natural gas on fields located onshore and offshore;
- Emergency works, commissioning and repair of wells;
- Crude refining;
- The distribution, transport, storing, marketing, bunkering of ships and the supply of airships with crude oil products;
- Wholesale and retail trade in merchandise and miscellaneous products;
- The import and export of crude, petroleum products, petrochemicals and chemicals, equipment, machines and specific technologies;
- Production, transmission, distribution, trade of electricity;
- Medical and social activity for its own employees and third parties;
- Other activities established and detailed in the Articles of Association of the company.

The detailed structure of the consolidated companies in OMV Petrom Group at December 31, 2017 is presented in Annex a) to the current report.

### **b) The date when the company was established**

The Company was established on October 27, 1997 and started its activity as of November 1, 1997, as per the Emergency Ordinance no. 49/1997 approved through Law no. 70/1998 under the name of S.N.P. Petrom S.A. (SNP – Societatea Nationala a Petrolului/ National Oil Company). In the Extraordinary General Meeting of Shareholders dated September 14, 2004 the change of the Company's name from SNP Petrom SA to S.C. Petrom S.A. was approved.

Starting January 1, 2010, the Company name is OMV Petrom S.A., based on the Resolution of the Extraordinary General Meeting of Shareholders dated October 20, 2009.

### **c) Mergers or significant reorganizations of the company, the subsidiaries or the companies controlled performed during the financial year.**

Not applicable.

### **d) Asset acquisitions and/or alienation**

On 1 August 2017 the transaction for the transfer of 19 marginal onshore fields to Mazarine Energy Romania S.R.L. was finalized.

Also, on 28 December 2017 the divestment of the entire participation held by the Company in OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park, to Transeastern Power B.V., a limited liability company registered in the Netherlands, a wholly owned subsidiary of Transeastern Power Trust, was completed.

### **e) Overview of the main results of the company**

In 2017, sector fundamentals were largely supportive as commodity prices and refining margins moved upwards year-on-year. In turn, challenges came from increased competition in the fuels market in our operating region, and from uncertainties due to numerous domestic regulatory and fiscal changes. In this context, OMV Petrom S.A. achieved an excellent performance, with an Operating Result of RON 2,990 mn. Upstream and Downstream contributed almost equally to the result, as we capitalized on our integrated business model. We also continued our cost optimization program.

In **Upstream** segment, in 2017 OMV Petrom produced in Romania 3.5 mn t of crude oil including condensate and 5.14 bcm of natural gas, the equivalent of 58.63 mn boe total oil and gas. Important events have been the increase in capacity of the Hunt joint venture Padina early development facility and the planned maintenance of offshore gas compressors (Lebăda Est NAG) in the middle of the year. The largest gas field, Totea Deep, after reaching its plateau production during 2016, started declining and was impacted by the planned shut-down for upgrade at the end of June 2017.

In 2017, crude oil production obtained using enhanced oil recovery techniques accounted for 24.5% of total domestic oil production. Heavy oil, representing crude oil with density greater than 900 kg/m<sup>3</sup>, accounted for more than 35% of total production of crude oil and NGL.

In 2017, the average crude oil production was 68.5 kboe/d, compared to 72.0 kboe/d in 2016.

Domestic average gas production was 92.2 kboe/d, below the level of 93.8 kboe/d achieved in 2016. The internal gas consumption for upstream operations accounted for 11.6% of total gas production.

A very successful workover campaign partially compensated the natural production decline.

In line with OMV Petrom's ambition to focus on the most profitable barrels, the optimization of the portfolio continued as planned. On August 1<sup>st</sup>, 2017 the transaction for the transfer of 19 marginal fields to Mazarine Energy Romania has been finalized.

As of December 31, 2017 the total proved oil and gas reserves in OMV Petrom's portfolio in Romania amounted to 542 mn boe, while the proved and probable oil and gas reserves amounted to 792 mn boe.

In **Downstream Oil**, we enjoyed better refining margins and increased demand for our products, due to the favorable economic environment, despite strong competition in our region and the volatility of excise duties in Romania.

In **Downstream Gas** segment, we achieved improved performance of the power business, despite the partial unavailability of the Brazi power plant, supported by strong spark spreads and estimated insurance revenues. We divested the Dorobantu Wind park and worked on capturing the highest integrated operational value, achieving 51.4 TWh gas sales volumes and a net electrical output of 2.6 TWh in the Brazi power plant.

### 1.1.1. General evaluation elements

Starting with 2017, OMV Petrom's income statement has been changed in line with industry best practice to comprehensively reflect the operations of the Company and enhance transparency for the users of the financial statements. For comparability purposes, figures of the prior years have been reclassified according to the new structure. Please refer to section 5 for more details.

Item, RON mn	2017	2016	2015
Net income/(loss)	2,400	908	(631)
Net turnover	14,783	12,594	13,952
Operating Result	2,990	1,291	(115)
Operating expenses	12,566	12,111	14,959
Liquidity (cash and cash equivalents)	3,780	1,854	666

In 2017, OMV Petrom's Operating Result amounted to RON 2,990 mn, compared to RON 1,291 mn in 2016, supported by a more favorable market environment, higher demand, cost discipline and the elimination of the tax on special constructions starting with 2017.

The information related to net turnover split per geographical areas is presented below:

Item, RON mn	2017	2016	2015
Romania	14,408	12,287	13,501
Rest of CEE	363	293	428
Rest of world	13	14	24
<b>TOTAL</b>	<b>14,783</b>	<b>12,594</b>	<b>13,952</b>

*Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.*

Please see section 5 for a detailed analysis of the financial statements.



### 1.1.2. Evaluation of the company's technical expertise

#### a) Main products and services

As OMV Petrom is an integrated oil and gas company, covering the full chain of upstream and downstream activities, the number of products can be grouped into the following categories, representative for the company's activity:

- Crude oil;
- Natural gas;
- Petroleum products: e.g. gasoline, diesel, kerosene, heavy fuel oil, LPG;
- Electricity.

#### b) Main outlets for each product or service and the distribution methods

OMV Petrom is present on relevant markets as a producer and supplier of crude oil and natural gas, petroleum products and electricity.

- **Crude:** OMV Petrom accounts for almost the entire oil production in Romania which is delivered to its own refinery - Petrobrazi; the crude transportation is handled by the state owned company Conpet S.A.
- **Natural gas:** OMV Petrom accounts for approximately half of the gas production in Romania. A small part of the natural gas produced by OMV Petrom is used in the Upstream activity. The remaining volume is partly delivered to internal consumers (such as the Brazi power plant), while most of it is placed on the market through the affiliated company OMV Petrom Gas S.R.L. For the delivery of the natural gas, OMV Petrom uses the national pipeline system of Transgaz and also its own network.
- **Petroleum products:** These products are sold to both Romanian and international markets. The company uses both retail and wholesale distribution channels, directly or through affiliates, to sell its refined products. The Group's retail supply channel consisted in a network of 786 fuel filling stations as of end-2017, in Romania (with 555 operating filling stations) and in the neighboring countries: Bulgaria, Serbia and the Republic of Moldova. Retail market share<sup>1</sup> in the operating region was 33%, broadly at the same level as in 2016, despite increased competition, reflecting improved efficiency and portfolio optimization.
- **Electricity:** OMV Petrom sells the electricity it produces on platforms managed by OPCOM S.A. (the electricity market operator), as well as to final clients. The Brazi power plant was partially unavailable throughout 2017 due to malfunctions of two transformers; full commercial operations resumed in mid-November 2017. In this context, the plant generated a net electrical output of 2.59 TWh, covering approximately 4% of Romania's electricity production.

#### c) Analysis of various revenues types

The weight of each revenue category in total revenues is presented in the table below:

Item	Total value – RON mn			Share in revenues (%)		
	2017	2016	2015	2017	2016	2015
Operating revenues <sup>1</sup>	15,607	13,404	14,949	98	98	97
thereof Turnover	14,783	12,594	13,952	-	-	-
Financial revenues	368	277	409	2	2	3
<b>TOTAL</b>	<b>15,975</b>	<b>13,680</b>	<b>15,358</b>	<b>100</b>	<b>100</b>	<b>100</b>

Figures in this and the following tables may not add up due to rounding differences.

<sup>1</sup> The difference to Turnover represents other operating income and income from consolidated subsidiaries and equity-accounted investments.

#### d) New products

As technologies in the car industry and in the engine industry have progressed, much higher quality standards are applicable for fuels in order to drive the best performance of engines. To respond to the

<sup>1</sup> OMV Petrom's estimates based on preliminary data available; OMV Petrom retail market share is calculated by dividing retail sales (Gasoline + Diesel) to total retail market (Gasoline + Diesel)

latest industry trends and offer our customers the best quality products, we enhanced our range with the new OMV MaxxMotion 100plus gasoline in 2017.

This new high performance gasoline, manufactured in the Petrobrazi refinery, is the result of development activities performed by OMV Group's innovating team and is based on a unique formula combining additives with a triple effect: cleaning, protecting and preventing deposits in the engine. The result is a new generation fuel that takes care of the engine, extending its life and, at the same time, maximizing its performance.

OMV MaxxMotion 100plus is the first fuel in Romania that fulfils the top quality rating by meeting the Worldwide Fuels Charter Category 5 requirements. Worldwide Fuels Charter is a document issued by associations of international vehicle and engine producers to establish quality standards for fuels, whereas its most advanced Category 5 is subject to the strictest performance requirements.

With the OMV MaxxMotion Performance Fuels range, of which OMV MaxxMotion 100plus is part, we are setting new standards for excellent fuel quality. Going forward, we will continue researching new and alternative fuels to ensure the improved mobility of our customers in the future.

### 1.1.3 Evaluation of the provision of technical and material resources (domestic and imports)

OMV Petrom is processing mainly domestically produced crude oil in its Petrobrazi refinery in order to obtain petroleum products and to maximize the company's integration value. The Company is also constantly evaluating the economic benefits from processing imported crude. During 2017, OMV Petrom processed 593 thousand tons imported crude oil (2016: 213 thousand tons).

### 1.1.4. Overview of the sale activity

A breakdown of turnover per each business segment is presented in the table below:

Turnover per segments of activity, RON mn	Year ended December 31		
	2017	2016	2015
Upstream	79	84	225
Downstream Oil	10,530	8,595	9,690
Downstream Gas	4,137	3,873	4,002
Corporate and Other	37	42	36
<b>Total</b>	<b>14,783</b>	<b>12,594</b>	<b>13,952</b>

*Turnover per segments refers to sales to third parties (excluding inter-segmental sales).*

The Company's **turnover** in 2017 increased by 17% to RON 14,783 mn compared to 2016, driven by higher sales as a result of an improved economic environment. Turnover increased mainly in Downstream Oil, being impacted by higher oil prices compared to prior year and higher sales volumes, mainly reflecting increased domestic demand. In Downstream Gas, sales improved from both gas business, mainly triggered by increased sales volumes, and power business positively impacted by higher electricity prices.

OMV Petrom S.A. is the parent company of OMV Petrom Group whose business model envisages the use of several sales channels and subsidiaries. Therefore, we also present the turnover breakdown at OMV Petrom Group level:

Group turnover per segments of activity, RON mn	Year ended December 31		
	2017	2016	2015
Upstream	458	436	682
Downstream Oil	14,470	12,055	13,572
Downstream Gas	4,473	4,118	4,206
Corporate and Other	34	38	34
<b>Total</b>	<b>19,435</b>	<b>16,647</b>	<b>18,493</b>

*Group turnover per segments refers to sales to third parties (excluding intra-group sales).*

## a) Sales evolution and outlook

The figures in the table below reflect OMV Petrom Group total sales of fuels and gas, as well as electricity output.

Products	Year ended December 31			Changes in %		
	2017	2016	2015	17/16	17/15	16/15
Total refined product sales (kt)	5,073	4,932	5,028	3	1	(2)
<i>thereof retail sales (kt)</i>	2,703	2,561	2,529	6	7	1
Gas sales (TWh)	51.4	50.4	51.4	2	0	(2)
<i>thereof to third parties (TWh)</i>	45.3	43.9	45.2	3	0	(3)
Total net electrical output (TWh)	2.7	2.9	2.7	(7)	2	10

OMV Petrom Group's total refined product sales amounted to 5,073 kt in 2017, higher by 3% compared to 2016, mainly reflecting increased domestic demand in a favorable economic environment.

Group retail sales were 6% higher compared to 2016, reaching 2,703 kt, as a result of a positive trend in the domestic market demand. In Romania, retail sales reached 2,237 kt in 2017, 7% higher compared to 2016.

In the non-retail distribution channel, in 2017, OMV Petrom continued to optimize its operations in a challenging market environment with a focus on the business-to-business activities. In Romania, the multi-channel approach (using different channels to reach the customer target groups) was pursued to strengthen sustainable profitability. Group non-retail sales stood at a similar level with 2016, as an effect of capitalized market opportunities offset by increased competition. In Romania, non-retail sales were 1,177 kt, similar with previous year's level.

OMV Petrom's gas sales volumes increased to 51.4 TWh in 2017, by 2% yoy, our integrated gas portfolio optimization enabling market opportunities identification and monetization. Our entire gas production available for sale was placed on the market, using all sales channels. Pursuing our strategic direction to consolidate the leading position in the gas market, we have focused on sales to end customers, supplying large businesses and industrial clients while expanding towards smaller consumers. The gas volumes not offtaken by the Brazi power plant were successfully rerouted to wholesalers, proving the benefits of our integrated gas and power business model. On the centralized markets, we sold 17 TWh of gas (with delivery until end-2018), at an average price in line with the corresponding market price.

The Brazi power plant resumed full commercial operations in mid-November 2017, after being partially unavailable throughout 2017 due to malfunctions of two transformers. Even in this context, we managed to capitalize on the favorable market circumstances, the plant generating a net electrical output of 2.59 TWh (2016: 2.83 TWh), thus covering approximately 4% of Romania's electricity production (2016: 5%). The Dorobantu wind park generated a net electrical output of 0.10 TWh in 2017 (2016: 0.08 TWh), receiving around 143,200 green certificates (2016: around 127,600 green certificates). Divestment of the Dorobantu wind park was finalized at the end of 2017, according to OMV Petrom's strategy of focusing on core activities.

Refining margins are projected to be below the 2017 level due to crude oil price recovery, while growing private consumption in Romania is estimated to support the demand for oil products.

In Romania, we expect a broadly similar demand for gas and power as compared to 2017.

## b) Company's market share. Main competitors

With daily hydrocarbon production of 160.6 kboe/d and an oil/gas split of roughly 43%/57% in 2017, OMV Petrom accounts for almost the entire crude oil production and for approximately half of the gas production in Romania.

As per OMV Petrom's estimates, national gas consumption increased by around 5% in 2017 yoy, to approximately 131 TWh (2016: 124 TWh), mainly due to weather conditions. Import gas slightly declined to approximately 13 TWh in 2017 vs. 14 TWh in 2016. OMV Petrom supplied more than one-third of Romania's total estimated gas consumption in 2017. The national domestic gas production was ensured

mainly by OMV Petrom and Romgaz, with relatively small volumes also provided by other, smaller private operators. OMV Petrom placed marginal import gas volumes on the market in 2017.

According to preliminary data published by the grid operator in February 2018, the Romanian gross electricity production was 60 TWh, while the electricity consumption amounted to 57 TWh in 2017. The main power generators in 2017 were: Hidroelectrica, Nuclearelectrica, Complexul Energetic Oltenia (Turceni, Rovinari, Craiova). The thermal power plants covered ~42% of the total national electricity production, the hydropower plants ~24%, the nuclear-power plant ~18%, while the renewable plants covered the remainder ~16%. The Brazi power plant covered 4% of Romania's electricity production in 2017.

The Romanian refining sector consists of four refineries in operation: Petrobrazi (owned by OMV Petrom), Petromidia and Vega (owned by Rompetrol – majority owned by Kaz Munay Gas), Petrotel (owned by Lukoil), which have a total operational capacity of approximately 12 mn tons/year. In 2017, the refineries processed a total quantity of approximately 11 mn tons of crude, according to the data provided by the National Institute of Statistics (NIS).

Retail market share in the operating region was 33%, broadly at the same level as in 2016, despite increased competition, reflecting improved efficiency and portfolio optimization.

**c) Description of any significant dependency of the company on a single customer or on a group of customers whose loss would have a negative impact on the company's income**

Given the wide range of products, OMV Petrom, also through its affiliates within the Group, has a large base of customers. Therefore, there are no third party clients which can materially affect the activity of the Company.

In addition, as a member of OMV Group, OMV Petrom has broadened its customer base with some of the affiliated companies within the OMV Group. Transactions with affiliated companies are made on arm's length basis and are also reported to the Bucharest Stock Exchange and Financial Supervisory Authority (ASF) as per the latter's requirements.

**1.1.5. Evaluation of issues related to the company's employees/staff**

**a) The number and expertise of the company's employees**

The average number of employees, calculated as average of the month's end number of employees during the year is presented below:

	<b>The average number of employees</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Average for the year	13,322	14,380	15,581

The average number of employees decreased in 2017 as a result of restructuring programs continued by the Company as a consequence of process optimization and cost efficiency measures.

As of December 31, 2017 the OMV Petrom SA workforce comprises 68.8% employees with a bachelor's or higher degrees in oil engineering and other fields (technical/financial/legal etc., thereof 37.8% higher degrees and 31.0% bachelor's degrees).

The majority of the employees are members of the representative trade union SNP (Sindicatul National Petrom) affiliated to SNPE ("Sindicatul National Petrom-Energie"), while a small number of employees are members of trade unions affiliated to "Energetica" Federation and "Lazar Edeleanu" Federation.

**b) The relationship between management and employees as well as of any conflict elements which characterize this relationship**

The dialogue between unions and management continues on a regular basis. The key elements of the framework outlining the relationship between management and employees are the Collective Labor



Agreement (CLA), Internal Rules and Parity Commissions. All the steps of any reorganization and/or outsourcing process that the Company has entered were discussed and agreed by both parties.

As of 2007, the wording of some provisions of the previous CLA (as such were amended) applicable within OMV Petrom led to a high number of labor litigations through which employees requested the granting of certain rights (e.g. payment of certain bonuses) deriving from the CLA, rights allegedly not granted to them. At the time of this report, some of these litigations are still in progress at various stages, although in a decreasing number across the country. OMV Petrom considers that the respective rights were granted (as regards bonuses, these were included and maintained in the base salary of the employees), therefore the claims being unjustified. The company's standpoint is considered by courts in the vast majority of the cases, as a result most cases have been finally won by OMV Petrom.

During 2017, OMV Petrom received a low number of additional claims related to some provisions of the CLA. Following the assessment of the potential liabilities with respect to the ongoing cases, the provision booked in prior years to cover this litigation risk was subject to reduction in 2017. OMV Petrom took all possible actions and contracted all necessary resources to defend against these lawsuits and also to prevent a further increase in likelihood of litigation risk. In addition, over the years the provisions of the CLAs applicable within OMV Petrom were amended so as to limit the possibility of different interpretations that would trigger new litigations. At the end of 2017, a new CLA was signed, following the expiration of the previous CLA. The provisions of the new CLA were also drafted and negotiated taking into consideration the litigation experience and the view the courts have in interpreting the employees' rights as resulting from the CLA and are meant to mitigate further litigations deriving thereof. The currently applicable CLA expires at the end of 2019. Furthermore, employees' information on this matter was substantially increased in order to raise awareness on the topic and a focus was put on clarifying discussions with claimants.

#### **1.1.6. Evaluation of issues related to the impact of the issuer's main activity on the environment**

##### **Summary description of the impact of the company's main activity on the environment and any existing or envisaged disputes about violations of environmental protection legislation**

Information on the impact of the company's main activity on the environment and any existing or envisaged disputes about violations of environmental protection legislation may be found in the Sustainability Report to be issued by the Company by 30 June 2018, as per the legal requirements with reference to the disclosure of non-financial information.

OMV Petrom is involved in various court file cases regarding pollution claims, due to current or former specific oil and gas operations. As examples to illustrate the related events, we may refer to spills, leaks and other contamination resulting from, inter alia, ageing infrastructure and operating or waste management or accidents, resulting in various claims, such as requests for damages related to environmental restoration, lack of use of lands, fines and other measures imposed by the environmental authorities, challenges of acts issued by authorities with respect to environmental matters (including those referring to environmental taxes set up by local authorities).

Nevertheless, the company is aiming to observe the specific measures with respect to the environmental matters, as imposed by the Environmental Authorities and the law, in due time, in which regard the Company endeavors to take necessary measures to obtain access to the relevant lands, also via court claims.

#### **1.1.7 Evaluation of research and development activities**

In line with its strategic direction, the Company continued its exploration efforts in order to create new potential for discoveries. In 2017, the exploration expenditure amounted to RON 235 mn, compared to RON 338 mn in 2016, mainly due to lower exploration activities in the Neptun block.

Also, the Company owns the Institute of Research and Technological Design (ICPT) Campina that is part of the Upstream Division. ICPT was set up in 1950 and has become an important center of scientific research for the oil industry, being a pioneer in terms of developing field engineering, drilling and extraction methodologies. With a vast experience in oil industry research, ICPT performs complex laboratory analysis, technical support and expertise at a high level of quality and efficiency, covering the needs of exploration and production activities. In 2017, total expenses incurred by ICPT were in the amount of RON 21 mn (2016: RON 19 mn) and in 2018 are expected to reach RON 29 mn. Capital expenditure was in the amount of RON 2.1 mn (2016: RON 0.2 mn), while for 2018 it is anticipated to be around RON 1.4 mn.

### 1.1.8. Evaluation of the company's risk management activity

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

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

Through its risk management process, OMV Petrom assesses whether long-term sustainability and the mid-term liquidity are secured, and whether the estimated impact of the risks is within acceptable levels.

On the long term, a Strategic Risk assessment process is in place capturing on the one hand, the executive management's perspective of the risk environment across a long time horizon and on the other hand, the appointed risk owners' proposal of risk mitigation plans as well as their report on the implementation progress of the respective actions. The strategic risks are both external – oil & gas market volatility, climate change, political, regulatory changes & compliance risks, earthquake risk – and internal – hydrocarbon reserves replacement, physical assets & safety, human capital & competition on labor market to attract talents, reputation and technology & innovation risks. Performing an annual strategic risk assessment ensures a robust re-validation of the identified risks, capturing in the risk registers new developments or updates of the operating environment and industry trends, with positive impact on the company's ability to prevent risks from happening and, additionally, to prepare responses in case the risks materialize.

On the medium-term, the objective of OMV Petrom's risk management system is to secure its capacity to deliver positive economic value added by managing the company's risks and their potential cash flow impact within the limits of the risk appetite. High potential single event risks as well as long-term strategic risks are also identified, evaluated, analyzed and managed consistently.

Furthermore, OMV Petrom's risk management system is part of the corporate decision-making process. Risks associated with new major projects or important business initiatives are assessed and communicated to management prior to approval decision.

OMV Petrom's Enterprise Wide Risk Management (EWRM) system follows ISO31000 Risk Management International Standard and comprises a dedicated risk department working under a robust internal regulation framework with quantitative information technology infrastructure. Additionally, the EWRM system actively pursues the identification, analysis, evaluation and mitigation of main risks in order to manage their effects on the company's cash flow up to an acceptable level agreed as per the risk appetite.

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

The risks within OMV Petrom's EWRM system are organized in the following categories: market and financial, operational and strategic. These categories include among others: market, financial, project, process, health, safety and security, tax, compliance, personnel, legal, regulatory and reputational risks.

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

OMV Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and operational risks in connection with low probability high impact hazards. Other risks that influence the company's results are counterparty credit risk, liquidity risk and interest rate risk.

As regards the **market price risk**, OMV Petrom is naturally exposed to the price-driven volatility of cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. Market risk has core strategic importance within OMV Petrom's risk profile and

liquidity. The market price risks of OMV Petrom commodities are closely analyzed, quantified and evaluated.

In terms of **foreign exchange risk management**, OMV Petrom cash is essentially exposed to the volatility of RON against USD and EUR. The effect of foreign exchange risk on cash flows is regularly monitored.

Derivative financial instruments may be used for the purposes of managing exposure to commodity price and to foreign exchange currencies upon approval from OMV Petrom's Executive Board in line with the company's risk appetite and / or risk assessments.

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is given to process safety risks where OMV Petrom's policy is "Zero harm, no losses". The low probability high impact risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are identified and incident scenarios are developed and assessed for each of them. Where required, mitigation plans are developed for each specific location. Besides emergency, crisis and disaster recovery plans, OMV Petrom's policy with regard to insurable risks is to transfer the risks via insurance instruments. These risks are closely analyzed, quantified and monitored by the risk organization and are managed via detailed internal procedures.

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

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

OMV Petrom is inherently exposed to interest rate risk due to its financing activities. The volatility of EURIBOR (Euro Interbank Offered Rate) and ROBOR (Romanian Interbank Offered Rate) may trigger less or additional cash flow resources necessary to finance the interest payments associated with OMV Petrom's debt. However the mentioned volatility is low.

In relation to **political and regulatory risk**, the company is in dialogue with the Romanian authorities on topics of relevance for the industry and monitors regulatory developments. In 2017, we have seen a number of fiscal and regulatory initiatives put in discussion and/or implemented. This increases legislative volatility with influence on the overall business environment. As far as compliance risks are concerned, the company organizes regular trainings and awareness campaigns.

OMV Petrom's consolidated risk profile is regularly reported for the Executive Board's endorsement and for the information of the Audit Committee of the Supervisory Board.

In 2017, OMV Petrom re-assessed its strategic risk portfolio during six dedicated meetings with the participation of the Executive Board members. The focus of the discussions was on mitigating actions proposed by the appointed risk owners and an update of the risk developments over the recent period.

Additionally, OMV Petrom re-assessed its mid-term risk exposures, its financial resilience and the list of risk mitigating actions. The results of the re-assessment were submitted in the form of risk management reports in March and October to the Executive Board and Audit Committee of the Supervisory Board.

### 1.1.9. Estimates of the company's activity

#### a) Factors which affect or could affect the company's cash position

##### Outlook for 2018

For the year 2018, we expect the average Brent oil price to be at USD 60/bbl. The Brent-Urals spread is anticipated to remain at a similar level as in 2017.

We expect a broadly similar **demand for gas and power** in Romania as compared to 2017.

**Refining margins** are projected to be below the 2017 level, due to crude oil price recovery, while growing private consumption in Romania is estimated to support the **demand for oil products**.

A stable, predictable and investment-friendly fiscal and regulatory framework is a key requirement for our future investments, both onshore and offshore.

The government approved the draft **Offshore Law**, covering operational issues and taxation; the law has passed the Senate, a step forward in the Parliamentary approval process.

The Ministry of Economy published a draft **Royalty Law** in October 2017, but has withdrawn the document at the end of December; based on the updated government program, we expect a new draft law to be issued for public consultation in 2018.

The **methodology for gas reference price to be used for the calculation of gas royalties** was approved by the National Agency for Mineral Resources (ANRM) and entered into force as of its publication date, February 12, 2018; the reference price will be linked to CEGH gas prices in Austria.

The amendments to the regulation on the **supplementary taxation of revenues obtained from gas sales** have been approved in Parliament; the tax rate is to increase from 60% to 80% for realized gas prices higher than RON 85/MWh (the increased tax rate applies only to the difference between realized prices and RON 85/MWh); the tax would become permanent; the law is expected to enter into force soon.

### Investments for 2018

At the Group level, we expect to generate a **positive free cash flow after dividends** supported by the favorable market environment. **CAPEX** (including capitalized exploration and appraisal) is currently anticipated to be about RON 3.7 bn, of which around 75% in Upstream. Final investment decision with regards to Neptun Deep is expected in the second half of 2018.

In Upstream, we plan investments of around RON 2.8 bn (excluding Exploration and Appraisal (E&A)), including more than 100 new wells and sidetracks, around 1,000 workovers and the Neptun Deep project. Exploration expenditures are estimated to be around RON 230 mn.

In section 1.1.8. are detailed potential risks that could affect the company's cash position.

The main factors that affected the company's cash flow during 2017 are presented in section 5.

### b) Capital expenditures (CAPEX) and other additions

Investments <sup>1)</sup> , RON mn	2017	2016	2015
Upstream	3,093	2,132	3,962
Downstream Oil	340	342	281
Downstream Gas	87	13	9
Corporate and Other	2	3	6
<b>Total</b>	<b>3,522</b>	<b>2,490</b>	<b>4,258</b>

<sup>1)</sup> Include amounts for fixed assets acquisitions, financial investments, advance payments on fixed assets, land deeds, financial leasing and excludes increases from reassessment of provisions.

Investments made by OMV Petrom S.A. in 2017 amounted to RON 3,522 mn, higher by 41% compared to 2016.

Investments in Upstream activities (RON 3,093 mn) represented 88% of total CAPEX in 2017, being 45% above the 2016 level, as a result of intensified drilling and workover activities, investments in surface facilities, the Neptun Deep project and financial investments made by OMV Petrom S.A. in connection with the increase in the share capital of Tasbulat Oil Corporation LLP, in an amount of USD 150 mn (RON 615 mn).

Downstream Oil investments (RON 340 mn) are at the similar level as investments in 2016 (RON 342 mn), mainly reflecting the Polyfuel growth project and investments related to preparations for the 2018 full-site Petrobrazi refinery turnaround.

Downstream Gas investments (RON 87 mn) are mainly related to the acquisitions of two turbine transformers and preparations for the planned partial shutdown of the Brazi gas-fired power plant in 2018. Corporate & Other investments amount to RON 2 mn (2016: RON 3 mn).

c) Factors which significantly affect the income generated by the company's main activity

Operating Result per segments of activity, RON mn	Year ended December 31		
	2017	2016	2015
Upstream	1,542	420	(1,602)
Downstream Oil	1,536	1,162	1,152
Downstream Gas	67	(82)	92
Corporate and Others	(83)	(67)	(74)
Operating Result Consolidation <sup>1</sup>	(71)	(142)	317
<b>Total</b>	<b>2,990</b>	<b>1,291</b>	<b>(115)</b>

<sup>1</sup> Operating Result Consolidation result represents the inter-segmental profit elimination

During 2017, in the **Upstream** segment, Operating Result amounted to RON 1,542 mn, compared to RON 420 mn in 2016, mainly driven by higher prices, lower production costs and depreciation, partly offset by lower sales volumes, higher exploration expenses and royalties. Exploration expenses increased to RON 308 mn in 2017 (2016: RON 262 mn), mainly due to higher write-offs. The Operating Result was also impacted by net income/(loss) from consolidated subsidiaries and equity accounted investments in the amount of RON (49) mn (2016: nil). Average Urals crude prices increased by 26% compared to 2016 to USD 53.23/bbl. Domestic crude oil production was 24.99 mn bbl, 5% down compared to the 2016 level due to natural decline, closure of the sale transaction of 19 marginal fields to Mazarine Energy Romania S.R.L. as well as due to planned maintenance and surface works (both onshore and offshore). Domestic gas production was 33.64 mn boe, 2% lower compared to the 2016 level, due to natural decline and planned surface works, partially compensated by the successful workover campaign. Production cost in Romania was USD 10.89/boe (RON 44.06/boe), down 8%, mainly due to the elimination of the tax on special constructions, lower material and services costs and downsizing of the organization, partly offset by lower production available for sale.

In the **Downstream Oil** segment, Operating Result increased to RON 1,536 mn, as compared to RON 1,162 mn in 2016, largely driven by better refining margin, the low base effect of the prior year refinery turnaround and increased demand. Operating result was also impacted by net income from consolidated subsidiaries and equity accounted investments in the amount of RON 412 mn (2016: RON 397 mn). In 2017, the OMV Petrom indicator refining margin increased vs. 2016 by USD 0.77/bbl to USD 7.75/bbl, as a result of an increase in product quotations that fully offset the higher cost of crude oil. The refinery utilization rate was higher yoy (93% in 2017 compared to 89% in 2016, when it was impacted by the one-month turnaround).

In the **Downstream Gas** segment, Operating Result was RON 67 mn, an increase from the loss of RON (82) mn in 2016, mainly on improved performance of the power business, supported by strong spark spreads and by the estimated insurance revenues related to Brazi power plant. The insurance revenues related to the Brazi power plant booked in 2017 amounted to RON 161 mn. Operating result was also impacted by net income/(loss) from consolidated subsidiaries and equity accounted investments in an amount of RON 72 mn (2016: RON (2) mn). The Brazi power plant was partially unavailable throughout 2017 due to malfunctions of two transformers. The plant generated a net electrical output of 2.59 TWh (2016: 2.83 TWh).

Operating Result in the **Corporate and Other** (Co&O) segment amounted to RON (83) mn, (2016: RON (67) mn), influenced also by net income from consolidated subsidiaries and equity accounted investments in an amount of RON 3 mn (2016: RON 6 mn).



## 2. Tangible Assets

### 2.1. The location and the main features of the production equipment owned by the company

OMV Petrom S.A. unfolds its activities in all the counties of the country, in Bucharest and in the Black Sea continental shelf, but also in Kazakhstan and the neighboring countries (Republic of Moldova, Bulgaria and Serbia), directly or via its subsidiaries.

#### Upstream:

At the end of 2017, OMV Petrom operated 208 commercial oil and gas fields in Romania.

The Company has a significant asset base in its Upstream business, in the form of property, plant and equipment used to exploit the Company's hydrocarbon reserves. This base also includes assets related to oil and gas service business, such as workover, maintenance and logistics activities.

#### Gas:

Being a marketing business, the Gas segment does not have production equipment or a significant asset base.

#### Power:

OMV Petrom has an 860 MW gas fired power plant located in Brazi.

#### Doljchim:

OMV Petrom continued the activities related to the dismantling process at Doljchim, to prepare the site for future alternative use.

#### Refining:

OMV Petrom has two refineries: Petrobrazi (in operation) and Arpechim (not operating since 2011).

In 2017, OMV Petrom exclusively operated its upstream integrated refinery, Petrobrazi, with a total operational capacity of 4.5 million tons /year.

#### Retail:

Through its affiliates, OMV Petrom operates 555 retail filling stations in Romania and 231 stations in the neighboring countries of Bulgaria, Serbia and the Republic of Moldova.

Number of retail filling stations per country	2017	2016	2015
Romania	555	554	554
Republic of Moldova	79	78	84
Bulgaria	91	90	90
Serbia	61	61	60
<b>Total</b>	<b>786</b>	<b>783</b>	<b>788</b>

#### OMV Petrom S.A.

Tangible assets, RON mn (Net Book Value)	Balance at 31.12.2017	Balance at 31.12.2016
Land, land rights and buildings, incl. buildings on third-party property	1,427	1,489
Oil and gas assets	18,907	19,560
Plant and machinery	4,106	4,563
Other fixtures and fittings, tools and equipment	107	123
Assets under construction	555	464
<b>Total tangible assets</b>	<b>25,103</b>	<b>26,200</b>

## 2.2. The degree of wear-out for fixed assets

The core items within the Upstream segment are depreciated using the unit of production method, while other tangible and intangible assets are depreciated on a straight-line basis according to estimated useful life, starting with the following month to the put in function date.

The impact of accumulated depreciation and impairments of the tangible assets is presented in the table below:

<b>Tangible assets, RON mn</b>	<b>Balance at 31.12.2017</b>	<b>Balance at 31.12.2016</b>
Land, land rights and buildings, incl. buildings on third-party property	961	881
Oil and gas assets	18,013	16,127
Plant and machinery	5,243	4,554
Other fixtures and fittings, tools and equipment	235	219
Assets under construction	51	48
<b>Total tangible assets</b>	<b>24,503</b>	<b>21,828</b>

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

Romanian law allows former owners of land and/or buildings which were abusively confiscated by the Romanian State during the communist regime to recover their ownership rights under certain conditions. Although, under laws regarding the restitution of property confiscated during the communist regime, the land which is subject to oil-related activities cannot be restored in kind to its former owner, there are many cases where restitutions in kind have occurred. However, in many such cases, the courts have declared such restitution null and void.

The Company has received notifications regarding the restitution of the assets confiscated by the Romanian State between March 6, 1945 and December 22, 1989, which falls under the incidence of Law no. 10/2001. In total, until December 31, 2017, a number of 1,143 notifications were transmitted to OMV Petrom, out of which:

- 16 notifications were admitted and buildings were restored;
- 1,092 notifications were rejected due to the failure to comply with the requirement of Law no.10/2001;
- 31 notifications were redirected to other entities;
- 4 notifications are currently under analysis.

As per Article 28 paragraph 1 and 2 of Law no. 10/2001, the City Halls 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 informed 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 the activity of solving notifications within the City Halls' and Prefectures' Commissions is still in progress, part of the notifications received may be further directed to OMV Petrom.

Apart from that, oil, gas and power activities involve significant hazards. Our assets are subject to risks generally relating to the exploration for and production of oil and gas, including blowouts, fires, equipment failure, tanker accidents, damage or destruction of key assets and other risks that can result in loss of property, caused by a number of natural and man-made acts or disasters such as human error, terrorism, acts of theft or vandalism, adverse weather conditions, earthquakes or other natural disasters and force majeure events. Offshore operations, in particular, are subject to a wide range of hazards, including capsizing, collision, bad weather and environmental pollution. Although we maintain insurance as per best international practice in the industry, in certain circumstances, our insurance may not cover or may not be adequate to cover the consequences of all such events, or in certain situations, insurance coverage may not be available.

### 3. The Market of the Securities issued by the Company

#### 3.1. The markets in Romania and in other countries where the securities issued by the company are traded

OMV Petrom **shares** are traded on the Bucharest Stock Exchange since September 3, 2001 and in the form of **global depositary receipts** (GDRs) on main market of the London Stock Exchange (LSE) since October 20, 2016.

##### OMV Petrom share symbols

ISIN	ROSNPPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNP.BX

##### OMV Petrom GDRs symbols

London Stock Exchange Regulation S	PETB
ISIN Regulation S GDR	US67102R3049
London Stock Exchange Rule 144A	PETR
ISIN Rule 144A GDR	US67102R2058

In 2017, **the share price** of OMV Petrom S.A. reached the **lowest level** for the trades on the Regular market of RON 0.2775 in the first trading day of the year (January 3, when the highest daily share price appreciation of the year of also 6.3% occurred). The stock maintained an upward trend until mid-May, when the **maximum for the year** of RON 0.3365 was reached on May 19 (the last cum-dividend date). On the ex-dividend date of May 22, the share price corrected by less than the 2016 dividend per share of RON 0.015 (i.e. by RON 0.010 or 3.0%). Moreover, at the end of May, the share price was up 2.3% month over month (mom).

A 2.4% decrease was recorded on September 20, when Fondul Proprietatea (FP) announced the sale a 2.567% stake via an accelerated book building (ABB). Another decline by 0.7% was recorded the next day, when the ABB price was announced (RON 0.275/share, the lowest price of the year). The share price recorded a significant decline in June (14.0% down mom), partly recovered in July (11.3% up mom) before continuing its slide (with mom declines of 4.9% in August, 3.7% in September and 1.0% in October). These monthly evolutions were completely opposite of the Brent oil price developments for the respective months. In these months, OMV Petrom share price also underperformed the BET index by 2.2 percentage points (pp), 1.5 pp and 0.6 pp respectively.

Despite the up and downs, in 2017 OMV Petrom's share price appreciated overall, **closing the year at RON 0.286**, up 9.6% yoy and slightly outperforming the BET index by 0.14 pp. **The total shareholder return** (including the dividend of RON 0.015/share for the 2016 financial year) **was 15.3%**.

The average share price of OMV Petrom for trades on the Regular market was RON 0.3011 in 2017, 23.5% higher than the 2016 figure of RON 0.2439, a similar increase with the one for the average Brent oil price (by 24%).

OMV Petrom S.A. **market capitalization** at the end of 2017 was RON 16.2 bn (EUR 3.48 bn), accounting for 10% of the total market capitalization of the companies listed on the BSE and for 22% of the capitalization of the BET index (representing the 13 most liquid blue chip stocks listed on the BSE).

Excluding the ABB, the **total traded volume** in OMV Petrom shares was of 2.18 bn in 2017, up 15% yoy, while the **traded value** was RON 656 mn, up 46% yoy. If only the Regular market is considered, trades totaled 1.99 bn shares, up 41.8% yoy and RON 598.3 mn, up 76.7% yoy.

The **average daily traded volume** was 8.8 mn shares (including Deal trades, but excluding the ABB transaction), up 18% yoy, while **the average daily traded value** was RON 2.65 mn, up 49.4% yoy (EUR 0.58 mn).

In terms of the development of domestic indices, 2017 was a better year than 2016. **The BET index** increased by 9.4% yoy, while the **BET-TR (total return BET)** appreciated 19.1% yoy. The **BET-NG index** (comprising stocks in the energy and utilities sectors) in which OMV Petrom S.A. has a 30.7% weight, increased by 10.8%. Compared to 2016, the **BET-BK** index (designed as a benchmark for asset managers and institutional investors) grew by 22.8% in 2017.

### Global Depositary Receipts (GDR)

The **GDR price in the last day of trading** in 2017 was **USD 10.95**, translating into a 19.8% yoy increase. In 2017, the GDR price ranged between a USD 9.14 **low** (on January 3) and a USD 12.45 **high** (on August 16).

310,849 GDRs were traded in total during the year, while the **daily average number of GDRs** was 1,224. These unfavorably compare with the values for the period October 20, 2016 (the debut of the GDR listing on the LSE) to December 29, 2016 of 939.4k (total) and around 19k (daily average).

The highest monthly trading volume was reached in January (115,452 GDRs), worth of USD 1.16 mn, while the lowest in June (when there were no trades).

**The total value of GDRs traded** in 2017 was USD 3.4 mn, significantly below the value of around USD 7.8 mn achieved in the first months of trading GDRs on the LSE (October - December 2016).

95,900 GDRs were issued and 784,027 GDRs were cancelled during 2017 (**net cancellations** at 688,127). The number of GDRs outstanding as at the end of each month ranged between 988,932 (September) and 1,756,419 (January). The **number of GDRs outstanding at the end of December** was 1,068,292. As a reminder, 2,492,328 GDRs were issued (1GDR = 150 shares) in the October 2016 Secondary Public Offering (SPO).

From 2016 to 2017, the European and US indices increased on the international financial markets: the DAX went up by 12.5%, FTSE 100 rose by 5.5%, Dow Jones Industrial average jumped by 25.1%, while the FTSE Global Energy Index, comprising the world's largest oil and gas companies, increased marginally by 2.1%.

### 3.2. Description of the company's dividend policy for the last 3 years.

Related to year	2017	2016	2015
Dividends allocated, RON mn	1,132.88 <sup>1</sup>	849.66	0

<sup>1</sup> Subject to GMS approval.

On March 23, 2016, the Supervisory Board approved the Executive Board's proposal to the Ordinary General Meeting of Shareholders that no dividends will be distributed for the year 2015. This proposal was approved by the Ordinary General Meeting of Shareholders, on April 26, 2016.

On March 23, 2017, the Supervisory Board approved the Executive Board's proposal to distribute dividends of RON 0.015 per share, resulting in a payout ratio of 81%, based on the Group's 2016 net profit attributable to stockholders' of the parent. The dividend proposal was approved by the Ordinary General Meeting of Shareholders, on April 25, 2017. The payment of the dividends started on June 12, 2017.

On March 19, 2018, the Supervisory Board approved the Executive Board's proposal to distribute dividends of RON 0.020 per share, resulting in a payout ratio of 45%, based on the Group's 2017 net profit attributable to stockholders' of the parent. The dividend proposal is subject to approval by the Ordinary General Meeting of Shareholders, on April 26, 2018.

### 3.3 Description of any activity involving the company's purchasing its own shares

As at year-end 2017, OMV Petrom held a total of 204,776 own shares, representing 0.0004% of issued share capital.

In 2017 OMV Petrom did not buy back or cancel any of its own shares

### 3.4. Where the company owns subsidiaries, mention of the number and the nominal value of the shares issued by the parent company and held by the branches

OMV Petrom has subsidiaries, but none of them owns shares issued by the parent Company.

### 3.5. Where the company has issued bonds and /or other debt securities, presentation of the way in which the company fulfilled its obligations towards the holders of such securities

Not applicable.

## **4. Company administration**

### **Corporate Governance Report**

The Company has always conferred great importance upon the principles of good corporate governance considering corporate governance a key element underpinning the sustainable growth of the business and also the enhancement of long-term value for shareholders.

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

Since 2007, the Company is governed in a two-tier system in which the Executive Board manages the daily business and operations of the Company, while the Supervisory Board elected by the shareholders monitors, supervises and controls the activity of the Executive Board. The powers and duties of the above-mentioned bodies are stated in the Company's Articles of Association, available on the website ([www.omvpetrom.com](http://www.omvpetrom.com)) and in the relevant internal regulations and are briefly detailed herein.

The Company is managed in an atmosphere of openness between the Executive Board and the Supervisory Board, as well as within each of these corporate bodies. A transparent decision-making process, relying on clear and objective rules, enhances shareholders' confidence in the Company and its management. It also contributes to the protection of shareholders' rights, improving the overall performance of the Company and providing better access to capital and risk mitigation.

The members of the Executive Board and the Supervisory Board 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.

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

The Company first adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010 and continues to apply its principles, ever since then.

OMV Petrom complies with almost all of the provisions set forth in the Corporate Governance Code issued by the Bucharest Stock Exchange that entered into force on January 4, 2016. More details on Company's compliance status with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange are presented in the corporate governance statement, which is a part of this Annual Report.

### **General Meeting of Shareholders**

#### **GMS organization**

The GMS is the highest deliberation and decision forum of a company. The main rules and procedures of the GMS are laid down in the Company's Articles of Association and in the Rules and Procedures of the GMS, both published on the Company's corporate website, as well as in the relevant GMS convening notice.

The GMS is convened by the Executive Board whenever this is necessary. In exceptional cases, when the Company's interest requires it, the Supervisory Board may also convene the GMS. The convening notice is published, at least 30 days before the GMS, in the Official Gazette and in one widely-distributed newspaper in Romania and disseminated to the Financial Supervisory Authority and Bucharest and London Stock Exchanges. At the same time, the convening notice will be also made available on the Company's website, together with all explanatory and supporting documents related to items included on the relevant GMS agenda.

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

At first convening, the quorum requirements are met if the shareholders representing more than half of the share capital of the Company are present, decisions being validly passed with the affirmative vote of shareholders representing the majority of the share capital of the Company. The same rules apply both to Ordinary and Extraordinary GMS. The Ordinary GMS held at the second convening may validly decide on the issues included on the agenda of the first scheduled meeting, irrespective of the number of attending shareholders, by the majority of the votes expressed in such meeting. For the Extraordinary GMS held at the second convening, the quorum and majority requirements are the same as for the first convening.



Where the mandatory legal provisions set out otherwise, the quorum and majority requirements shall be carried out in accordance with such legal provisions.

In observance of capital market regulations, the resolutions of the GMS are disseminated to the Bucharest and London Stock Exchanges and the Financial Supervisory Authority within 24 hours after the event. The resolutions will also be published on the Company's website.

The Company actively promotes the participation of its shareholders in the GMS. The shareholders duly registered in the shareholders' register at the reference date may attend the GMS in person or by representation, based on a general or special proxy. Shareholders may also vote by correspondence, prior to the GMS. The Company makes available at the headquarters and/ or on the Company's website templates of such proxies and voting bulletins for the votes by correspondence.

The shareholders of the Company, regardless of their participation held in the share capital, may raise questions in writing or verbally regarding the items on the agenda of the GMS. In order to protect the interests of our shareholders, the answers to the questions shall be provided by observing the regulations applicable to special regime information (e.g. classified information), as well as of disclosure of commercially sensitive information that could result in losses or a competitive disadvantage for the Company.

### **GMS main duties and powers**

The main duties of the **Ordinary GMS** are:

- (a) to discuss, approve or modify the annual financial statements;
- (b) to distribute the profit and to establish the dividends;
- (c) to elect and revoke the members of the Supervisory Board and the financial auditor;
- (d) to establish the remuneration of the members of the Supervisory Board and of the financial auditor;
- (e) to assess the activity of the Executive Board members and of the Supervisory Board members, to evaluate their performance and to discharge them of their liability in accordance with the provisions of law;
- (f) to approve the income and expenditure budget for the next financial year.

The **Extraordinary GMS** is entitled to decide mainly upon:

- (a) changing the corporate form or the business object of the Company;
- (b) increasing or reducing the share capital of the Company;
- (c) spin-offs or mergers with other companies;
- (d) early dissolution of the Company;
- (e) converting shares from one class into another;
- (f) amendments to the Articles of Association.

### **Shareholders' rights**

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

Shareholders have, amongst others rights provided under the Company's Articles of Association and the laws and regulations currently in force, the right to obtain information about the activities of the Company, regarding the exercise of voting rights and the voting results in the GMS.

Shareholders have also the right to participate and vote in the GMS, as well as to receive dividends. OMV Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote.

Moreover, shareholders have the right to challenge the decisions of GMS or to withdraw from the Company and to request the Company to acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders holding, individually or jointly, at least 5% of the share capital, may request the calling of a GMS. Such shareholders have also the right to add new items to the agenda of a GMS, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

### **GDR holders' rights**

GDR holders have the rights set out in the terms and conditions of the GDRs, as endorsed on each GDR certificate. These include the right to:

- (a) withdraw the deposited shares;
- (b) receive payment in US dollars from the GDR depositary of an amount equal to cash dividends or other cash distributions received by the GDR depositary from the Company in respect of the

- deposited shares, net of any applicable fees, charges and expenses of the depositary and any taxes withheld;
- (c) receive from the GDR depositary additional GDRs representing additional shares received by the GDR depositary from the company by way of free distribution (or if the issue of additional GDRs is deemed by the GDR depositary not to be reasonably practicable or to be unlawful, the net proceeds in US dollars of the sale of such additional shares);
  - (d) request the GDR depositary to exercise subscription or similar rights made available by the Company to shareholders (or if such process is deemed by the GDR depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in US dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights);
  - (e) instruct the GDR depositary regarding the exercise of any voting rights notified by the Company to the GDR depositary subject to certain conditions;
  - (f) receive from the GDR depositary copies received by the GDR depositary of notices provided by the Company to shareholders or other material information.

## **Supervisory Board**

### **Supervisory Board members**

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started in 2017 and ends on April 28, 2021.

At the beginning of 2017, the Supervisory Board consisted of the following members: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Daniel Turnheim, Jochen Weise, George Băeșu, Dan Manolescu and Joseph Bernhard Mark Mobius.

Following the expiry of the mandate of the Supervisory Board, the Ordinary GMS approved the appointment of the members of the Supervisory Board for a new four-year mandate effective as of April 28, 2017, namely: Rainer Seele, Reinhard Florey, Manfred Leitner, Johann Pleininger, Daniel Turnheim, Mihai Busuioc, Radu-Spiridon Cojocaru, Joseph Bernhard Mark Mobius and Jochen Weise.

During 2017, there was only one change in the membership of the Supervisory Board. As of October 26, 2017, following Mihai Busuioc's waiver of his mandate as member of the Supervisory Board, Sevil Shhaideh was appointed as interim member of the Supervisory Board until the next GMS.

### **Supervisory Board main duties and powers**

The Supervisory Board has the following main powers:

- (a) to exercise control over the management of the Company by the Executive Board;
- (b) to appoint and revoke the members of the Executive Board;
- (c) to submit to the GMS a report concerning the supervision activity undertaken;
- (d) to verify the reports of the members of the Executive Board;
- (e) to verify the Company's annual separate and consolidated financial statements;
- (f) to propose to the GMS the appointment and the revocation of the independent financial auditor, as well as the minimum term of the audit contract.

Details on the Supervisory Board works and activities in 2017, as well as the results of the Supervisory Board self-evaluation are included in the Supervisory Board Report.

### **Supervisory Board organization**

The responsibilities of the members of the Supervisory Board, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations.

The Supervisory Board meets whenever necessary but at least once every three months. The Supervisory Board may hold meetings in person or by telephone or video conference. At least five of the Supervisory Board members must be present for resolutions to be validly passed. The decisions of the Supervisory Board shall be validly passed by the affirmative vote of the majority of the members present or represented at such Supervisory Board meeting. In the event of parity of votes, the President of the Supervisory Board or the person empowered by him/her to chair the meeting shall have a casting vote. In urgent cases, the Supervisory Board may take decisions by circulation, without an actual meeting being held, by the majority of votes. The President shall decide on whether issues are of an urgent nature.

### **Special Committees**

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the

Supervisory Board itself, without thereby preventing the entire Supervisory Board from dealing with matters assigned to the committees. As of December 31, 2017, the special committees established at the level of the Supervisory Board were the Audit Committee and the Presidential and Nomination Committee, the later being established as of March 23, 2017.

### **Audit Committee**

The Audit Committee is currently composed of four members, including the president and the deputy president, appointed by decision of the Supervisory Board from amongst its members.

At the beginning of 2017, the Audit Committee was composed of three members, namely Reinhard Florey, Jochen Weise and George Băeșu, while as of April 28, 2017, the Audit Committee was composed of four members as follows: Reinhard Florey, Jochen Weise, Mihai Busuioc and Radu-Spiridon Cojocaru.

During 2017, there was only one change in the membership of the Audit Committee as detailed in the Supervisory Board report. Hence, at the end of 2017, as well as at the date of this report, the Audit Committee consisted of the following members: Reinhard Florey (President), Jochen Weise (Deputy President - independent), Sevil Shhaideh (member – independent) and Radu-Spiridon Cojocaru (member - independent).

The Audit Committee's members have adequate qualifications relevant to the functions and responsibilities of the Audit Committee.

### **Audit Committee main duties and powers**

The main duties and powers of the Audit Committee according to the Audit Committee Terms of Reference are focused on four main areas:

- (a) Financial reporting – to examine and review the annual financial statements of the Company and the proposal for the distribution of the profits before their submission to the Supervisory Board and subsequently to the GMS for approval; to oversee and approve the nature and level of non-audit services provided by the independent financial auditor to the Company, as well as the issuance of regulations/guidelines with regard to such services;
- (b) External audit – to consider and make recommendations to the Supervisory Board on the appointment, re-appointment and removal of independent financial auditors, subject to approval by the shareholders;
- (c) Internal audit, internal controls and risk management – to undertake an annual assessment of the system of internal control;
- (d) Compliance, conduct and conflicts of interest – to review conflicts of interests in transactions of the Company and its subsidiaries with related parties and examine and review, before their submission to the Supervisory Board for approval, related party transactions that exceed or may be expected to exceed 5% of the Company's net assets in the previous financial year.

Details on the Audit Committee works and activities in 2017 are included in the Supervisory Board Report.

### **Audit Committee organization**

The working procedures of the Audit Committee are stated in the Terms of Reference of the Audit Committee.

The Audit Committee meets on a regular basis, at least three times per year, and on an extraordinary basis if required. The Audit Committee's meetings are chaired by the President or, in his/her absence, by the Deputy or by another member, by virtue of a mandate from the President. The decisions of the Audit Committee shall be taken by unanimous consensus of all members of the Audit Committee. In case unanimous consensus cannot be reached with respect to a specific item on the agenda, that item will be resolved upon by the Supervisory Board without the consultative opinion of the Audit Committee.

In urgent cases, the Audit Committee may take decisions also by circulation, without an actual meeting being held, with the unanimous consensus of all members of the Audit Committee. The President shall decide on whether issues are of an urgent nature.

### **Presidential and Nomination Committee**

In March 2017, the Company established a Presidential and Nomination Committee composed of four members appointed by the Supervisory Board amongst its members. The first members of the Presidential and Nomination Committee were as follows: Rainer Seele (President), Manfred Leitner (Deputy President), Dan Manolescu (member – independent) and Joseph Bernhard Mark Mobius (member).

Following the appointment by the Ordinary GMS of the membership of the Supervisory Board for a new four year mandate, the Supervisory Board approved the new composition of the Presidential and Nomination Committee with effect as of April 28, 2017 and until the expiration of the current mandate of the Supervisory Board, respectively April 28, 2021, as follows: Rainer Seele (President), Manfred Leitner (Deputy President), Joseph Bernhard Mark Mobius (member) and Mihai Busuioc (member - independent).

As of October 26, 2017, the Supervisory Board approved the appointment of Sevil Shhaideh as member of the Presidential and Nomination Committee following Mihai Busuioc's waiver of his mandate.

Therefore, at the end of 2017, as well as at the date of this report, the Presidential and Nomination Committee consisted of the following four members: Rainer Seele (President), Manfred Leitner (Deputy President), Joseph Bernhard Mark Mobius (member) and Sevil Shhaideh (member - independent).

The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in the Executive Board. In addition, the Presidential and Nomination Committee has the right to make recommendations concerning the proposal of candidates for appointment in the Supervisory Board.

## **Executive Board**

### **Executive Board members**

The Executive Board of the Company comprises five members, appointed by the Supervisory Board for a mandate of four years running until April 17, 2019.

At the beginning of 2017, the Executive Board was composed of the following members: Mariana Gheorghe (CEO and President), Andreas Matje (CFO and member), Peter Rudolf Zeilinger (member in charge with Upstream activity), Neil Anthony Morgan (member in charge with Downstream Oil activity) and Lăcrămioara Diaconu-Pințea (member in charge with Downstream Gas activity).

The Supervisory Board appointed Stefan Waldner as CFO and member of the Executive Board, starting July 1, 2017, following Andreas Matje's waiver of his mandate effective with the same date.

Likewise, the Supervisory Board appointed Christina Verchere as the new President of the Executive Board and CEO of OMV Petrom following Mariana Gheorghe's waiver of her mandate. Christina Verchere accepted her appointment and she will assume the position at the latest with effect from May 21, 2018. The waiver of Mariana Gheorghe shall become effective on the date when Christina Verchere takes office, but in any event on May 20, 2018, at the latest.

### **Executive Board main duties and powers**

The main powers of the Executive Board, performed under the supervision and control of the Supervisory Board, are:

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

The Executive Board reports to the Supervisory Board on a regular basis on all relevant issues concerning the course of business, strategy implementation, the risk profile and risk management of the Company.

Moreover, the Executive Board ensures that the provisions of the relevant capital markets legislation are complied with and implemented by the Company. Likewise, the Executive Board ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the Company.

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

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

### **Executive Board organization**

Responsibilities of the Executive Board members, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations.

The Executive Board may hold meetings in person or by telephone or video conference. The meetings of the Executive Board are held regularly (at least once every two weeks, but usually every week) and whenever necessary for the operative management of the Company's daily business.

The Executive Board shall have a quorum if all members were invited and if at least three members are personally present. The Executive Board shall pass its resolutions by simple majority of the votes cast. In the event of a tie, the President shall have a casting vote. However, the President shall endeavor in her/his best efforts to achieve that, to the extent possible, resolutions are passed unanimously.

Should the nature of the situation require it, the Executive Board can pass a resolution by circulation based on the written unanimous agreement, without an actual meeting being held. The President shall assess whether such a procedure is called for. Such procedure may not be used for resolutions pertaining to the annual financial statements of the Company or its registered share capital.

In 2017, the Executive Board met 56 times in person and passed resolutions by circulation on 3 other occasions in order to approve all matters requiring its approval in accordance with the Articles of Association and the Company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the Company and to inform each other about all relevant issues of their activity.

### **Diversity and employee development**

As OMV Petrom's workforce is made up of more than 38 different nationalities, diversity, inclusion and equal opportunities are high on the agenda at all organizational levels. Both the Executive Board and Supervisory Board give great importance on ensuring a diversity balance of their memberships. For example, the Supervisory Board focuses, in its self-evaluation performed annually, also on aspects related to diversity in terms of age, gender and internationality of its members, the result of which is presented in the Supervisory Board Report.

Diversity contributes to OMV Petrom being acknowledged as an employer of choice, and it aims to keep it that way. Achieving gender balance has always been a challenge in the industry OMV Petrom operates.

With an increasing average age (reaching 48 in 2017) our company is focused on providing knowledge transfer programs and ensuring succession for critical (technical) positions. OMV Petrom also aims to attract the best students and offer them the opportunity to complete formal education by attending practical activities, specific to a certain business area. Open4U is the company's very successful internship program, through which, in 2017, it hosted 43 students who undertook a two-month paid internship.

### **Women's advancement**

The Company supports gender diversity and promotion of women in management positions although acknowledges the gender gap in oil and gas industry.

By being part of OMV Group, OMV Petrom has acceded in 2013 to the Group diversity strategy, striving to meet the Group key performance indicators: 30% women in top management positions and 35% women in upper management positions by 2020. This proves strong and long term commitment in supporting women in top management positions.

OMV Petrom has two women in the Executive Board: Mariana Gheorghe, the President of the Executive Board and Lăcrămioara Diaconu-Pințea, Executive Board member in charge with Downstream Gas. Starting 26 October 2017, OMV Petrom Supervisory Board has also a female member, namely Sevil Shhaideh. Moreover, at the end of 2017, around 42.4% of the first line directors reporting to the Executive Board were women, whilst the percentage of women in upper management in total (directors and head of departments) was around 27.4%. The proportion of women in the OMV Petrom Group as a whole was 22% by year end.

Under the diversity umbrella, OMV Petrom also runs programs focusing on the gender component. One such an example is Women Leadership Cross Companies Mentoring, dedicated mainly to women leaders, women with potential for a leadership position or at the mid-stages of their career. This program matches women in middle management positions with highly experienced leaders from other companies,



with the aim to provide them with the knowledge and the attitude they need to act as organizational leaders and assume corresponding roles.

OMV Petrom is committed to protecting the rights, opportunities of all employees, by promoting parity and eliminating gender bias, by offering learning opportunities in diversity and by making available to all employees an Ombudsman Department to which employees may raise work related issues, including gender related, namely the PetrOmbudsman.

### **Basic Principles of Remuneration**

The oil and gas industry volatile price environment set up coupled with the latest workforce dynamics have emphasized the need to design financially sustainable and flexible compensation and benefits policies. Also, to maintain long-term competitiveness, OMV Petrom has set a performance and development based organization and, correspondently, a performance-based reward management system, embedding the company's principles of People and Organisational Culture related strategy pillar "Foundation".

OMV Petrom's remuneration principles are targeting more than just being compliant with the legislation. The Company places people at the core of its business, being one of the main pillars of the Company's success.

Consistent with the objective to be a reputable employer, the Company's remuneration principles utilize a balanced mix of fixed and variable, monetary and non-monetary components in order to attract, recruit, motivate, train, develop, promote and retain the best qualified people. Remuneration packages are set to achieve internal equity, but at the same time to remain externally competitive with the local and international market in which the Company operates and to make people feel encouraged to create sustainable results and add value to the business.

### **Remuneration of the Supervisory Board members**

The annual Ordinary GMS approves yearly the remuneration of the Supervisory Board members for the current year. Such remuneration has two components: (i) the remuneration of the Supervisory Board members, and (ii) the additional remuneration of the members of the Supervisory Board who are also members of committees established at the level of the Supervisory Board.

In addition, for the proper running of their activity, Supervisory Board members may receive also some benefits in kind, such as mobile device for business and reasonable private use and liability insurance.

### **Remuneration of the Executive Board members**

The remuneration of the members of the Executive Board consists of fixed remuneration, paid monthly either in EUR or RON, based on various contractual arrangements, and performance related remuneration, which includes both short and long-term elements. The measures/ key performance indicators for the performance related component are based on financial and non-financial metrics.

For properly carrying out their activity, Executive Board members receive also some benefits in kind, such as a company car and a mobile device for business and reasonable private use. In addition, Executive Board members benefit also of international health insurance and liability insurance.

In case of unilateral termination by the Company of their mandate agreement, Executive Board members are entitled to six fixed gross monthly remuneration payable according to their management agreement with the Company.

### **Remuneration of other staff**

The employees of OMV Petrom are employed under local Romanian terms and conditions and the salaries are therefore set in RON. The employment contracts are concluded with OMV Petrom and governed by Romanian law. Reflecting additional responsibilities in the group of OMV Petrom companies, there are employees with an additional employment contract with other entities within OMV Petrom Group.

The remuneration of OMV Petrom employees is at competitive levels for the relevant oil & gas industry and includes: (i) a fixed base remuneration, paid monthly as a net salary determined by applying to the base gross salary the income tax quotas and social contributions, (ii) other fixed payments, such as fixed bonuses and special allowances according to the Collective Labour Agreement, (iii) other statutory and non-statutory benefits, such as private insurance, holiday indemnity / special days off and, depending on the assigned position, a company car or car compensation fee and (iv) short term (quarterly and / or annual) performance-related components. The measures/ key performance indicators used are based on financial and non-financial metrics.

## Internal control

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

OMV Petrom's internal control system covers all areas of Group operations with the following goals:

- Compliance with laws and internal regulations
- Reliability of financial reporting (accuracy, completeness and correct disclosure)
- Prevention and detection of fraud and error
- Effective and efficient business operations.

OMV Petrom's internal control system framework consists of the following elements:

Element	Description
Internal control environment	The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).
Assessment of process and compliance risks	Generally all business, management and support processes are within the scope of the internal control system. They are assessed to identify risky and critical activities as well as process and compliance risk.
Risk mitigation via control activities	Control activities and measures (such as segregation of duties, checks, approvals, IT access rights) are defined, implemented and performed to mitigate significant process and compliance risks.
Documentation and information	Related duties include the documentation of main processes and procedures containing a description of key control activities performed.
Monitoring and audit	Management and Internal Audit evaluate the effective implementation of the internal control system.

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

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

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

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

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

The Group has an Accounting Manual that is implemented consistently in all group companies in order to ensure that uniform accounting treatment is applied for the same business cases. The Group Accounting Manual is updated regularly with changes in International Financial Reporting Standards. Furthermore,

the organization of the accounting and financial reporting departments is set up in order to achieve a high quality financial reporting process. Roles and responsibilities are specifically defined and a revision process – the “four-eye principle” – is applied in order to ensure correctness and accuracy of the financial reporting process. The establishment of group-wide standards for the preparation of annual and interim financial statements by means of the Group Accounting Manual is also regulated by an internal Corporate Guideline.

#### **4.1. Presentation of the company’s administrators and the following information for each administrator:**

##### **a) CV (family name, first name, age, skills, professional expertise, position and length of employment)**

As at January 1, 2018, the Supervisory Board of OMV Petrom consists of nine members, elected for a four-year mandate between 28 April 2017 and until 28 April 2021, as follows:

<b>Name</b>	<b>Age (years)</b>	<b>Position</b>	<b>Other information</b>
Rainer Seele	58	President of the Supervisory Board First elected at the GMS held on September 22, 2015	He graduated from the University of Göttingen, where he obtained a doctorate in Chemistry, and in 1987 became Head of Group Chemical Research and Head of Planning and Controlling in an international chemicals group. Within the same group he became Member of the Executive Board (in 2000) and then Chairman of the Executive Board at a company in the Gas-sector. From 2009 until 2015 he was Chairman of the Board of Directors of an international oil and gas company within the same group. He joined OMV Aktiengesellschaft as CEO starting July 1, 2015.
Reinhard Florey	53	Member and Deputy President of the Supervisory Board Elected at the GMS held on April 25, 2017	He graduated in mechanical engineering and economics from Graz University of Technology while also completing his music studies at the Graz University of Fine Arts. He started his career in corporate and strategy consulting. From 2002 to 2012 he worked in different positions worldwide for Thyssen Krupp Steel. His most recent post was as CFO and deputy CEO of Outokumpu. Chief Financial Officer (CFO) of OMV Aktiengesellschaft starting July 1, 2016.
Johann Pleininger	56	Member First elected at the GMS held on April 29, 2014	He attended the Technical College for Mechanical Engineering and Economics in Vienna, obtained the International Project Management certificate and graduated in Industrial Engineering. He joined OMV in 1977. Member of the OMV Aktiengesellschaft Executive Board since September 1, 2015, responsible for Upstream and Deputy Chairman of the Executive Board starting July 1, 2017.

Name	Age (years)	Position	Other information
Manfred Leitner	58	Member First elected at the GMS held on April 26, 2011	He studied commerce at the Vienna University of Economics and Business and began his career with OMV in 1985 in the Exploration & Production division. Member of the OMV Aktiengesellschaft Executive Board, responsible for Downstream (Refining & Marketing and Gas & Power).
Daniel Turnheim	43	Member Elected at the GMS held on April 25, 2017	He graduated Business Administration at the Vienna University of Economics and Business Administration. He joined OMV in 2002 where he held several management positions. Since July 2016 he is Senior Vice-president of Corporate Finance & Controlling within OMV Aktiengesellschaft.
Sevil Shhaideh	53	Interim member – independent <sup>1</sup> , effective as of October 26, 2017 until the next GMS	She graduated the Faculty of Economic Planning and Cybernetics within the Academy of Economic Sciences from Bucharest and earned a master's degree in the Management of Business Projects from Ovidius University, Constanta. She held various positions within the Romanian Government, such as State Secretary and Minister within the Ministry of Regional Development and Public Administration and Vice Prime Minister and Minister of Regional Development, Public Administration. She is State Counselor within Romanian Government.
Radu-Spiridon Cojocaru	71	Member – independent <sup>1</sup> Elected at the GMS held on April 25, 2017	He graduated in applied electronics from Polytechnic Institute, Faculty of Electronics, Bucharest. He is a founding member of the National Association for Securities Market Development, contributing from his position as member of the Board of Directors to the establishment of specific institutions such as National Securities Commission (currently the Financial Supervisory Activity), Bucharest Stock Exchange, Central Depositary, RASDAQ.
Joseph Bernhard Mark Mobius	82	Member First elected at the GMS held on April 29, 2010	He earned a Bachelor and Master Degree from Boston University and a PhD in economics and political science from the Massachusetts Institute of Technology. He was the Executive Chairman of Templeton Emerging Markets Group, which directs the analysts of Franklin Templeton's 18 emerging market offices and manages the emerging markets' portfolios. Starting February 1, 2018, he is Partner of Mobius Capital Partners

Name	Age (years)	Position	Other information
			Ltd.
Jochen Weise	62	Member - independent <sup>1</sup> Elected at the GMS held on April 25, 2017	He graduated in Law from Universities of Bochum and Bonn, Germany. He has been in non-executive positions as Supervisory Board member of Verbundnetzgas AG in Leipzig, Germany since December 2014 and as Senior Advisor Energy Infrastructure Investments at Allianz Capital Partners in London since November 2010.

**b) Any agreements, understanding or family connection between the respective administrators and another person who is responsible for appointing of the respective person in the position of Director.**

OMV Petrom's governance follows a two-tier system, with the Executive Board ensuring the management of the Company under the control and supervision of the Supervisory Board. The members of the Supervisory Board are not appointed by certain persons or certain shareholders. They are appointed by the Ordinary GMS based on shareholders' votes and in compliance with the statutory requirements relating to quorum and majority. Therefore, there are no such agreements and understandings to be disclosed herein.

**c) The participation of the Supervisory Board members at the share capital of the company.**

OMV Petrom does not have knowledge of any member of the Supervisory Board holding shares issued by the Company.

**d) The list of related parties to the company**

Please see Annex b).

## 4.2. Executive Board

**a) Terms of office for the person who is member of the executive management**

The Executive Board's current mandate started in April 2015 and runs until April 2019. As of January 1, 2018, OMV Petrom's Executive Board is composed of the following members:

Name	Position
Mariana Gheorghe	Chief Executive Officer and President of the Executive Board
Stefan Waldner	Chief Financial Officer
Peter Rudolf Zeilinger	Member of the Executive Board responsible for Upstream
Neil Anthony Morgan	Member of the Executive Board, responsible for Downstream Oil
Lăcrămioara Diaconu-Pințea	Member of the Executive Board, responsible for Downstream Gas

<sup>1</sup> Independent member as per the criteria of the Bucharest Stock Exchange Corporate Governance Code, criteria which are substantially similar with those provided by the Company Law

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

Executive Board members are appointed by decision of the Supervisory Board. Apart from their management agreements concluded with the Company, Mariana Gheorghe, Stefan Waldner, Neil Anthony Morgan and Peter Rudolf Zeilinger are also parties to employment contracts with OMV entities, as amended by international assignment agreements during the time they serve as members of the Executive Board of OMV Petrom. Pursuant to these international assignment agreements, these members of the Executive Board receive certain compensation and benefits from the employing OMV entities. Such compensation and benefits are recharged to the Company as the work has been performed for the benefit of the Company via international assignment.

**c) The participation of the respective person at the share capital of the company**

The table below shows the number of shares held by the members of the Executive Board as of 31 December 2017, which is still valid as of the date of this report as well:

<b>Name</b>	<b>Shares</b>
Mariana Gheorghe	60,100
Stefan Waldner	0
Neil Anthony Morgan	0
Peter Rudolf Zeilinger	0
Lăcrămioara Diaconu-Pințea	100

Likewise, as a matter of good corporate governance, we outline that Lăcrămioara Diaconu-Pințea's husband holds 100 shares issued by OMV Petrom.

**4.3. The potential litigations and administrative procedures in which the persons presented under Sections 4.1 and 4.2 were involved over the last 5 years, concerning you're their activity or capacity to fulfill their duties within OMV Petrom**

To the best of our knowledge at the date of this report, during 2017, there is no ongoing litigation against any member of the Executive or Supervisory Board of the Company directly linked with their activity in the Company having a significant impact upon the price of the Company shares or the capacity to hold the position of members of such corporate bodies. However, members of the Executive Board and Supervisory Board might be involved in some court cases or preliminary procedures which do not fall under the aforementioned categories.



## 5. Analysis of the Financial Position, Performance and Cash Flows of the Company

The income statement has been changed in line with industry best practice to comprehensively reflect the operations of the Company and enhance transparency for the users of the financial statements. For comparability purposes, figures of the prior years have been reclassified according to the new structure. Therefore, ratios below were re-computed accordingly, where applicable.

Financial highlights, RON mn	Year ended December 31		
	2017	2016	2015
Sales revenues	14,783	12,594	13,952
Operating Result	2,990	1,291	(115)
Net financial result	(267)	(239)	(581)
Net income/(loss)	2,400	908	(631)
Non-current assets	33,346	35,612	36,500
Current assets (including assets held for sale)	7,679	5,751	4,394
Equity	27,560	26,001	25,091
Non-current liabilities	8,333	11,399	11,460
Current liabilities (including liabilities associated with assets held for sale)	5,132	3,963	4,343
Cash and cash equivalents at the beginning of the year	1,854	666	946
Net cash generated from operating activities	5,670	4,134	5,971
Net cash used for investment activities	(2,655)	(2,849)	(4,597)
Net cash used for financing activities	(1,089)	(98)	(1,662)
Effect of foreign exchange rate changes on cash and cash equivalents	0	0	9
Cash and cash equivalents at the end of the year	3,780	1,854	666

Ratios	Year ended December 31		
	2017	2016	2015
<b>Liquidity ratios</b>			
Current ratio	1.50	1.45	1.01
Acid test	1.18	1.07	0.65
<b>Risk ratios</b>			
Gearing ratio	n.m.	n.m.	4%
Indebtedness ratio	2%	3%	4%
<b>Operational ratios</b>			
Stock turnover – days*)	49	51	46
Days in receivables – days	35	38	42
Tangible assets turnover	0.59	0.48	0.52
Total assets turnover	0.36	0.30	0.34
<b>Profitability ratios</b>			
Net profit margin	16%	7%	(5%)
Operating Result margin	20%	10%	(1%)
Operating Result before depreciation margin	43%	36%	43%
Return on fixed assets (ROFA)	11%	4%	(0%)
Return on equity (ROE)	9%	4%	(2%)

Please see Annex c) for definitions of the above ratios.

\*) The ratio for 2015 was not recomputed based on the updated definition following new Income Statement structure

## New Income Statement structure

The main changes to the Income Statement are:

1. **“Net income from consolidated subsidiaries and equity-accounted investments”** is now part of **“Total revenues and other income”**.
  - Net income from consolidated subsidiaries and equity-accounted investments comprises dividend income from consolidated subsidiaries and equity accounted investments, and movement in impairments of investments in such entities;
  - Previously, dividend income from consolidated subsidiaries and equity accounted investments and any related impairment was included within the net financial result;
  - In the revised income statement, the net income from consolidated subsidiaries and equity accounted investments is included in “Total revenues and other income” and contributes to the “Operating result”. The **“Operating result”** includes the former indicator “Earnings Before Interest and Taxes” and the net result from consolidated subsidiaries and equity-accounted investments. Thus, the “Operating result” reflects the operational result of OMV Petrom S.A. including contributions from consolidated subsidiaries and equity-accounted investments.
2. The line items **“purchases (net of inventory variation)”**, **“production and operating expenses”** and **“production and similar taxes”** are now shown separately.
  - These items were previously disclosed mainly within the line “Cost of sales”;
  - Purchases (net of inventory variation). This line item includes cost of goods and materials that are used for conversion into finished or intermediary products, as well as goods purchased for reselling. This position also includes inventory changes and write-offs;
  - Production and operating expenses. This line item contains all costs incurred when manufacturing a good or providing a service;
  - Production and similar taxes. This line item contains production taxes, royalties and other taxes related to hydrocarbon production.
3. **“Selling, distribution and administrative expenses”** are now combined and reported in one line item.
  - These costs were previously disclosed as part of selling expenses and administrative expenses;
  - The new selling, distribution and administrative expenses line item includes all costs directly related to marketing and selling of products and administrative costs.
4. **“Depreciation, amortization and impairment charges”** are now disclosed as a separate line item.
  - Previously, “Depreciation, amortization and impairment charges” were included in “Cost of sales”, “Selling expenses” and “Administrative expenses”;
  - Impairments related to exploration assets remain part of “exploration expenses”.

For comparability reasons, figures of the prior years have been adjusted according to the new structure.

Compared to 2016, **sales revenues** increased by 17% to RON 14,783 mn. Please see section 1.1.4 for a detailed breakdown of sales revenues and explanation of variance. **OMV Petrom** is an integrated oil and gas company. As oil produced by the Upstream segment is processed at the Petrobrazi refinery, the Downstream Oil business segment represents the largest share of total sales to external customers: 71% or RON 10,530 mn (2016: RON 8,595 mn). The Downstream Gas segment's contribution was RON 4,137 mn or approximately 28% of total sales, 7% above 2016.

**Operating result** for the year 2017 amounted to RON 2,990 mn, higher than RON 1,291 mn in 2016, being influenced mainly by the following more significant evolutions:

- **Sales revenues** increased by 17%;
- **Net income from consolidated subsidiaries and equity-accounted investments**, that comprise mainly dividends received by OMV Petrom S.A. from its subsidiaries and associates, which in 2016 were included within the net financial result, increased by 9% mainly due to higher dividends distributed by subsidiaries in 2017 compared to 2016;
- **Other operating income** decreased by RON 72 mn, as 2016 was impacted by higher positive one-off effects;
- **Operating expenses** increased by 4%, mainly as:
  - Purchases (net of inventory variation) and Production and operating expenses, which include variable and fixed production costs, as well as costs of goods and materials employed,

- increased by RON 585 mn, mainly as a result of higher demand partially compensated by cost discipline and by the elimination of the tax on special constructions in 2017;
- Depreciation, amortization and impairment charges slightly increased by 1%;
- Exploration expenses slightly increased by RON 46 mn, mainly due to higher write-offs;
- Other operating expense decreased by RON 247 mn compared to 2016, mainly due to a positive impact from partial reversal in 2017 of provisions related to litigations with employees, following the outcome of court decisions, while 2016 was negatively impacted by reassessment of receivables.

The Company's **net financial result** slightly decreased to a loss of RON (267) mn in 2017 from RON (239) mn in 2016.

**Net income** significantly increased to RON 2,400 mn in 2017 compared to RON 908 mn in 2016, due to the positive evolution of the Operating Result.

As a result of its business activities, OMV Petrom contributed RON 9,069 mn to the Romanian State budget. Out of this amount, direct taxes represented RON 1,555 mn and indirect taxes RON 7,514 mn.

OMV Petrom's contribution to the State budget via direct taxes was mainly represented by profit tax that amounted to RON 304 mn, royalties that amounted to RON 589 mn, social contributions that amounted to RON 311 mn, tax on additional revenue from natural gas sales and on exploitation of mineral resources other than natural gas that amounted to RON 316 mn.

OMV Petrom's contribution to the State budget via indirect taxes was mainly represented by excise (including custom excise) in an amount of RON 5,183 mn, VAT (including custom VAT) in the amount of RON 1,912 mn and also employees' related taxes amounting to RON 387 mn.

**Total assets** amounted to RON 41,025 mn as of December 31, 2017, down by 1% compared to 2016, mainly driven by lower non-current assets, partially compensated by a higher cash and cash equivalents position.

**Non-current assets** decreased by 6% to RON 33,346 mn, compared to the end of 2016 (RON 35,612 mn), as the increase in intangible assets, reflecting mostly the on-going operations at the Neptun Deep block in the Black Sea, was offset by the net decrease in property, plant and equipment, as depreciation and impairments exceeded investments during the period. In addition, other financial assets decreased mainly from lower loans to subsidiaries, as the loan granted by OMV Petrom S.A. to OMV Petrom Marketing S.R.L. was fully reimbursed (RON 794 mn as of December 31, 2016) and the amount used by OMV Petrom Gas S.R.L. under cash pooling agreement with OMV Petrom S.A. decreased to RON 63 mn (RON 298 mn as of December 31, 2016). In turn, in 2017 OMV Petrom S.A. granted loans to Kom Munai LLP in the amount of RON 666 mn and to Tasbulat Oil Corporation LLP in amount of RON 111 mn, which were fully impaired as of year-end.

The ratio of intangible assets and property, plant and equipment to total assets amounted to 67% (2016: 69%).

**Total current assets**, including assets held for sale, increased by 34% to RON 7,679 mn compared to RON 5,751 mn at the end of 2016, mostly driven by the increase in cash and cash equivalents.

As at December 31, 2016, the assets and liabilities held for sale referred to:

- Upstream segment: in relation to 19 marginal onshore fields reclassified as assets and liabilities held for sale following the signing of a transfer agreement by OMV Petrom S.A. with Mazarine Energy Romania S.R.L. in October 2016;
- Downstream Gas segment: in relation to the envisaged sale of the entire stake in, and the assignment of loan granted to the subsidiary OMV Petrom Wind Power S.R.L. operating the Dorobantu wind-park.

On 1 August 2017 the transaction for the transfer of 19 marginal onshore fields to Mazarine Energy Romania S.R.L. was finalized.

Also, on 28 December 2017 the sale of the subsidiary OMV Petrom Wind Power S.R.L. operating the Dorobantu wind-park was completed.

**Equity** increased to RON 27,560 mn as of December 31, 2017 compared to RON 26,001 mn as of December 31, 2016, as a result of the net profit generated in the current period, partially compensated by the distribution of dividends for the financial year 2016 for the gross amount of RON 850 mn (gross dividend per share of RON 0.015). The equity ratio of 67% as of end-December 2017 was slightly higher than the level as of end-December 2016 (63%).

**Total liabilities** decreased by 12% to RON 13,465 mn as of December 31, 2017, due to a decrease in non-current liabilities, partially offset by an increase in current liabilities.

The decrease in **non-current liabilities** was mainly due to lower provisions largely related to the parent company guarantees issued by OMV Petrom S.A. for loans granted by OMV Petrom Marketing S.R.L. to Kom Munai LLP which amounted to RON 515 mn and recorded within current liabilities as of December 31, 2017. As of December 31, 2016, the provisions related to the parent company guarantees issued by OMV Petrom for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP amounted to RON 1,916 mn and were recorded within non-current liabilities. In addition, the provisions for decommissioning and restoration obligations decreased.

The increase in **current liabilities** was mainly due classification of the provision for the parent company guarantee to short-term liabilities, as mentioned above (RON 515 mn), higher trade payables and an increase in other financial liabilities.

Provisions for decommissioning and restoration amounted to RON 7,556 mn as of December 31, 2017, both short and long term (December 31, 2016: 8,113 mn). Revisions in estimates for decommissioning and restoration provisions arise from the yearly reassessment of the unit cost, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration, and revision of the estimated net discount rates.

The annual stock count of assets, liabilities and equity was performed according to Romanian legislation (Order no. 2861/2009) and the results were recorded in the financial statements as at December 31, 2017.

### **Cash flow**

Cash generated from operating activities increased as compared to 2016, mainly reflecting the improved pricing environment and cost discipline. Cash outflows in 2017 consisted mainly in payments for investments and dividends, and also in repayment of tranches of loans from the European Investment Bank and the European Bank for Reconstruction and Development.

At the Annual General Meeting of Shareholders held on April 25, 2017, the shareholders of OMV Petrom S.A. approved the distribution of RON 0.015 gross dividends per share. The Company paid dividends in the amount of RON 842 mn in 2017.

At the Annual General Meeting of Shareholders held on April 26, 2016, the shareholders of OMV Petrom S.A. approved the Executive Board's proposal not to distribute dividends for the financial year 2015. The Company paid dividends in the amount of RON 0.51 mn (related to prior periods) in 2016.

### **Changes in consolidated OMV Petrom Group**

Compared with the consolidated financial statements as of December 31, 2016, the consolidated Group changed as follows:

At the beginning of 2017 was finalized the sale of 100% shares in Tasbulat Oil Corporation LLP from Tasbulat Oil Corporation, a company incorporated under the British Virgin Island laws, to OMV Petrom S.A.

In December 2017, Tasbulat Oil Corporation BVI was liquidated.

On May 24, 2017, it was approved the sale of 1 (one) share in OMV Petrom Aviation S.A. from OMV Refining & Marketing GmbH to OMV Petrom Marketing S.R.L.

On December 28, 2017, OMV Petrom Wind Power SRL was deconsolidated, following the completion of the sale transaction.

The detailed structure of the consolidated companies in OMV Petrom Group at December 31, 2017 is presented in the Appendix 1 of the current report.

Please see more details related to the annual consolidated financial statements of the OMV Petrom Group that are public and may be obtained from the company website at [www.omvpetrom.com](http://www.omvpetrom.com).

In accordance with Chapter 8 of the Annex 1 of Ministry of Public Finance Order no. 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council, management prepared a report on payments to governments for the year 2017. This report will be published together with the financial statements of OMV Petrom S.A. for the year ended December 31, 2017.

#### **Non-financial declaration**

As per the legal requirements with reference to the disclosure of non-financial information, the Company prepares and publishes a separate Sustainability Report, which includes the information required for the non-financial declaration, describing our sustainability initiatives. OMV Petrom's Sustainability Report for 2017 will be published by June 30, 2018.

## 6. Corporate governance statement <sup>3</sup>

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
<b>Section A - Responsibilities</b>				
	<b>A.1.</b> All companies should have internal regulation of the Board which includes terms of reference/ responsibilities for Board and key management functions of the company, applying, among others, the General Principles of this Section.	√		<p>Since April 2007, OMV Petrom is managed in a two-tier system by an Executive Board, which manages the daily business of the Company under the supervision of the Supervisory Board.</p> <p>The Company's corporate governance structure and principles, as well as competences and responsibilities of the GMS, the Supervisory Board and the Executive Board are laid down in the Articles of Association, the Rules and Procedures of the GMS, the internal rules of the Supervisory Board and of the Executive Board, as well as in other relevant internal regulations.</p>
	<b>A.2.</b> Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	√		<p>The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.</p> <p>Moreover, the Company has in place internal rules on how to deal with conflicts of interest.</p>
	<b>A.3.</b> The Supervisory Board should have at least five members.	√		<p>The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Company's Articles of Association.</p>
	<b>A.4.</b> The majority of the members of the Board should be non-executive. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Supervisory Board should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.	√		<p>OMV Petrom's governance follows a two-tier system, with the Executive Board ensuring the management of the Company under the control and supervision of the Supervisory Board. The Supervisory Board comprises nine members who are all non-executive. Therefore, the balance between executives and non-executives is ensured.</p> <p>On the occasion of each (re)appointment of Supervisory Board members, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company law), consisting in an individual personal assessment done by the relevant Supervisory Board member, followed by an external assessment.</p> <p>Moreover, for the purpose of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2017.</p> <p>Following this evaluation, it resulted that at all times during 2017 there were three Supervisory Board members that met all the independence criteria provided by the Corporate Governance Code. Information on the</p>

<sup>1</sup>The statement summarises the main highlights of the Bucharest Stock Exchange Corporate Governance Code's provisions. For the full text of the Code please refer to Bucharest Stock Exchange website [www.bvb.ro](http://www.bvb.ro)



Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
				independence status of the members of the Supervisory Board is included on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section, and in the Supervisory Board Report.
	<b>A.5.</b> A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	√		Information on Supervisory Board and Executive Board members' permanent professional commitments and engagements, including executive and non-executive positions in companies and not-for-profit institutions are included in Supervisory Board and Executive Board members' CVs, available on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section.
	<b>A.6.</b> Any member of the Board should submit to the Board information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.	√		The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.  The Company has put in place internal rules on how to deal with conflicts of interest.
	<b>A.7.</b> The company should appoint a Board secretary responsible for supporting the work of the Board.	√		The Company has a General Secretary, supporting the works of the Executive Board and of the Supervisory Board.
	<b>A.8.</b> The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	√		The Supervisory Board undergoes yearly a self-evaluation process, based on a Self-Evaluation Guideline providing for the purpose, criteria and frequency of such an evaluation. Initially the self-evaluation was conducted under the leadership of the President of the Supervisory Board, but starting June, 23 2017 this attribution was taken over by the President of the Presidential and Nomination Committee.  The outcome of the Supervisory Board self-evaluation for 2017 is presented in the Supervisory Board Report.
	<b>A.9.</b> The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	√		Company's Executive Board meetings are held regularly (at least once every two weeks, but usually every week), while the Supervisory Board meets whenever necessary, but at least once every three months. Details on the number of and attendance to the meetings of the Executive Board and the Supervisory Board, including the Audit Committee and the Presidential and Nomination Committee, during 2017, are included in the Supervisory Board Report and Corporate Governance Report.  The reports of the Supervisory Board and Executive Board for 2017 are included in the Annual Report and submitted for Ordinary GMS's approval.
	<b>A.10.</b> The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	√		Following the independence evaluation of the Supervisory Board members, as per the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company Law), it resulted that, at all time during 2017, there were three Supervisory Board members that met all the independence criteria.  Information on the independence status of the members of the Supervisory Board is included on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section, and in the Supervisory Board Report.

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	<p><b>A.11.</b> The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.</p>		√	<p>The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Company's Articles of Association and applicable law. Prior to the Ordinary GMS, their CVs are available for shareholders' consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board.</p> <p>The Executive Board members are appointed by decision of the Supervisory Board with the majority of votes, according to the Company's Articles of Association.</p> <p>On March 23, 2017, the Supervisory Board established a Presidential and Nomination Committee composed of four members appointed amongst its members. Therefore being members of the Supervisory Board, all members of the Presidential and Nomination Committee are non-executives.</p> <p>Moreover, one member of the Presidential and Nomination Committee is independent.</p> <p>The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in the Executive Board. In addition, the Presidential and Nomination Committee has the right to make recommendations concerning the proposal of candidates for appointment in the Supervisory Board.</p> <p>Thus, starting March 23, 2017, the Company changed its compliance status with this provision from "non-compliance" to "partial compliance" given that currently the Nomination and Presidential Committee has only one independent member.</p>
<b>Section B - Risk management and internal control system</b>				
	<p><b>B.1.</b> The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.</p>	√		<p>OMV Petrom's Supervisory Board has set up an Audit Committee among its members. Therefore, the Audit Committee's members are all non-executives.</p> <p>Until April 2017, the Audit Committee was composed of three Supervisory Board members, while starting April 28, 2017 the Audit Committee is composed of four Supervisory Board members. Based on the independence evaluation, it resulted that at all times during 2017, the majority of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code.</p> <p>The Audit Committee includes members that have adequate qualifications relevant to the functions and responsibilities of the Audit Committee, while one member has also the necessary financial, audit and accounting expertise.</p>
	<p><b>B.2.</b> The audit committee should be chaired by an independent non-executive member.</p>		√	<p>Being members of the Supervisory Board, all members of the Audit Committee, including the president of the Audit Committee, are non-executives.</p> <p>Based on the independence evaluation, it resulted that at all times during 2017, the majority of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code, which however did not include the president of the Audit Committee.</p> <p>Thus, currently the Company is only "partially compliant" with this provision, as the president of the Audit</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
				<p>Committee fulfills only the condition of being non-executive, while the condition of being independent is not fulfilled.</p> <p>Although the Company considers that the independence and objectivity of the Audit Committee as a whole is not being impaired by the current membership of the Audit Committee, it aims to become again fully compliant with this provision in the future and for this purpose it is currently assessing possible alternatives.</p>
	<b>B.3.</b> Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	√		<p>The Terms of Reference for the Audit Committee detail the roles and functions of the Audit Committee, consisting mainly in:</p> <ul style="list-style-type: none"> <li>- examining and reviewing the annual separate and consolidated financial statements and the proposal for profit distribution;</li> <li>- considering and making recommendations on the appointment, re-appointment or removal of the independent external financial auditor, which is to be elected by the Ordinary GMS;</li> <li>- undertaking an annual assessment of the system of internal control, considering the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit Committee, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Supervisory Board;</li> <li>- reviewing conflicts of interests in transactions of the Company and its subsidiaries with related parties;</li> <li>- evaluating the efficiency of the internal control system and risk management system;</li> <li>- monitoring the application of statutory and generally accepted standards of internal auditing;</li> <li>- receiving regularly a summary of the main findings of the audit reports, as well as other information regarding the activities of the Internal Audit department and evaluating the reports of the internal audit team;</li> <li>- examining and reviewing, before their submission to the Supervisory Board for approval, related party transactions that exceed or may be expected to exceed 5% of the Company's net assets in the previous financial year, in accordance with Related Party Transactions Policy.</li> </ul> <p>Starting March 23, 2017, the attributions of the Audit Committee include also overseeing and approving the nature and level of non-audit services provided by the independent financial auditor to the Company, including by issuance of regulations/guidelines with regard to such services.</p>
	<b>B.4.</b> The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	√		
	<b>B.5.</b> The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	√		
	<b>B.6.</b> The audit committee should evaluate the efficiency of the internal control system and risk management system.	√		
	<b>B.7.</b> The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	√		
	<b>B.8.</b> Whenever the Code mentions reviews or analyses to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	√		The Audit Committee submits periodic reports to the Supervisory Board on the specific subjects assigned to it.
	<b>B.9.</b> No shareholder may be given undue preference over other shareholders with regard to	√		The Company applies equal treatment to all its shareholders. According to the internal Policy on Related Party Transactions in place within the Company, related

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	transactions and agreements made by the company with shareholders and their related parties.			party transactions are considered on their merits in accordance with the normal industry standards, applicable laws and corporate regulations.
	<b>B.10.</b> The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the audit committee and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	√		Company adopted an internal Policy on Related Party Transactions providing for the main principles of review, approval and disclosure of related party transactions, according to the applicable regulations and Company's statutory documents, including the fact that related party transactions that exceed or may be expected to exceed, either single or connected, an annual value of 5% of the Company's net assets in the previous financial year are to be approved by the Supervisory Board following the approval of the Executive Board and based on the review of the Audit Committee of the respective transaction. OMV Petrom regularly submits reports on transactions with its related parties to the Financial Supervisory Authority and to the Bucharest Stock Exchange. Such disclosure reports are reviewed by the independent financial auditor according to the relevant laws in force.
	<b>B.11.</b> The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	√		Internal audits are carried out by a separate structural department within the Company, namely the Internal Audit department.
	<b>B.12.</b> To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.		√	The Internal Audit Department administratively reports to the CEO. Still, the Internal Audit Department continues to maintain some functional reporting to the Executive Board, which makes the Company only "partially compliant" with this provision. Nonetheless, the Audit Committee is regularly informed about the main internal audit findings and other activities of the Internal Audit department. Moreover, the Audit Committee approves the audit charter (which stands for the terms of reference of the Internal Audit department and which describes its purpose, authority and responsibility) and also approves the annual internal audit plan. Therefore, in our opinion, the independence and objectivity of the internal audit function is not impaired by this reporting structure. Likewise, the Internal Audit Department did not encounter, in its past experience, cases that could be considered as jeopardizing its independence or objectivity due to these functional reporting lines. The Company is currently in assessment with the aim of becoming fully compliant with this provision in the future.
<b>Section C - Fair rewards and motivation</b>				
	<b>C.1.</b> The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.		√	The Company does not have a remuneration policy in place. However, although not yet formalized, the Company has and applies, consistently, some principles of remuneration concerning the Supervisory Board and Executive Board members, the senior management and the other staff. Such basic principles of remuneration are included in the Corporate Governance Report. The development of a remuneration policy is currently envisaged.
<b>Section D - Building value through investors' relations</b>				
	<b>D.1.</b> The company should have an Investor Relations function - indicated, by person(s) responsible	√		The Company has a special department dedicated to investor relations that can be contacted via e-mail at <a href="mailto:investor.relations.petroil@petrom.com">investor.relations.petroil@petrom.com</a> .

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	<p>or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:</p> <p>D.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures.</p> <p>D.1.2. Professional CVs of the members of its governing bodies, Board members' other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;</p> <p>D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports);</p> <p>D.1.4. Information related to general meetings of shareholders;</p> <p>D.1.5. Information on corporate events;</p> <p>D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request;</p> <p>D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.</p>			<p>Likewise, OMV Petrom has a special section of the corporate website dedicated to Investor Relations, where the following main information/documents are available, both in English and Romanian:</p> <ul style="list-style-type: none"> <li>- Articles of Association – in the Corporate Governance sub-section;</li> <li>- Rules and Procedures of the GMS – in the GMS sub-section;</li> <li>- Detailed professional CVs for all members of the Executive Board and Supervisory Board – in the Corporate Governance sub-section;</li> <li>- Current reports and periodic reports – in the Investor News sub-section and Investor Reports and Presentations sub-sections;</li> <li>- Convening notices and supporting materials for the GMS – in the GMS sub-section;</li> <li>- Financial calendar and information on other corporate events – in the Financial calendar and events sub-section;</li> <li>- Name and contact information of a person able to provide investors knowledgeable information on request – in the Contact sub-section;</li> <li>- Investor Presentations, Annual and Interim Reports, Annual and Interim Financial Statements, both separate and consolidated, including also the independent financial auditor reports, as the case – in the Investor Reports and Presentations sub-section.</li> </ul>
	<b>D.2.</b> A company should have an annual cash distribution or dividend policy. The annual cash distribution or dividend policy principles should be published on the corporate website.	√		The Company's Dividend Policy is published on its corporate website in the Investor Relations section, Corporate Governance sub-section.
	<b>D.3.</b> A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts mean the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast	√		The Company has a Forecast Policy which is published on its corporate website in the Investor Relations section, Corporate Governance sub-section.



Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	policy should be published on the corporate website.			
	<b>D.4.</b> The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	√		The details regarding the organization of the GMS are mentioned in the Company's Articles of Association and the Rules and Procedures of the GMS, as well as briefly stated in the Corporate Governance Report. Likewise, OMV Petrom publishes for every GMS convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Company ensures that the GMSs are adequately conducted and well organized while the shareholders' rights are duly observed.
	<b>D.5.</b> The independent financial auditors should attend the shareholders' meetings when their reports are presented there.	√		The independent financial auditors attend the Ordinary GMS whereby the annual separate and consolidated financial statements are submitted for approval.
	<b>D.6.</b> The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	√		All matters submitted for GMS approval are subject to Supervisory Board approval according to Company's internal rules. Moreover, the Annual Report submitted for GMS approval contains a brief assessment of the internal controls and significant risk management system.
	<b>D.7.</b> Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	√		The Rules and Procedures of the GMS provide for the possibility for any professional, consultant, expert, financial analyst or accredited journalists to participate in the GMS, upon prior invitation from the President of the Supervisory Board.
	<b>D.8.</b> The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	√		The quarterly and semi-annual financial reports include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.
	<b>D.9.</b> A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	√		OMV Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for their investment decision.  In 2017, OMV Petrom organized four conference calls with the occasion of publication of the quarterly results. In addition, the Company held one-to-one and group meetings and attended analyst and investor conferences, organized in Romania and abroad. For more details, please see also the Annual Report's section relating to OMV Petrom on capital markets.  The Investor Presentations were made available at the time of the meetings / conferences on the corporate website, in the Financial calendar and events section.
	<b>D.10.</b> If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities,	√		OMV Petrom conducts various activities regarding social and environmental responsibility. In this respect, the Company has a Sustainability Policy



Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.			in line with the Group Sustainability Strategy, published on the corporate website in the Investor Relations section, Corporate Governance sub-section.  More details may be found in the Sustainability Report for 2017 which will be issued by the Company by 30 June 2018, as per the legal requirements with reference to the disclosure of non-financial information.

## Declaration of the management

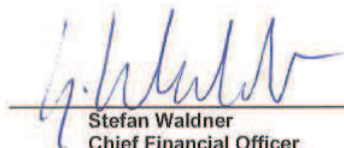
We confirm to the best of our knowledge that the separate financial statements prepared in accordance with IFRS as requested by Ministry of Finance Order no. 2844/2016 give a true and fair view of the financial position of OMV Petrom S.A. as of December 31, 2017, its financial performance and cash flows for the year then ended, in accordance with applicable accounting standards, and that the Directors' report gives a true and fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties associated with the expected development of the Company.

Bucharest, March 19, 2018

### The Executive Board



Mariana Gheorghe  
Chief Executive Officer  
President of the Executive Board



Stefan Waldner  
Chief Financial Officer  
Member of the Executive Board



Peter Zeilinger  
Member of the Executive Board  
Upstream



Lăcrămioara Diaconu-Pințea  
Member of the Executive Board  
Downstream Gas



Neil Anthony Morgan  
Member of the Executive Board  
Downstream Oil

## 7. Annexes

### a. List of consolidated companies in OMV Petrom Group at December 31, 2017

#### Parent company

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**OMV Petrom S.A.**

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#### Subsidiaries

<b>UPSTREAM</b>		<b>DOWNSTREAM OIL</b>	
Tasbulat Oil Corporation LLP	100.00%	OMV Petrom Marketing S.R.L.	100.00%
Kom Munai LLP	95.00%	Petrom Moldova S.R.L.	100.00%
Petrom Exploration & Production Ltd.	99.99%	OMV Petrom Aviation S.A. <sup>1</sup>	100.00%
		OMV Srbija DOO	99.96%
		OMV Bulgaria OOD	99.90%
<b>DOWNSTREAM GAS</b>		<b>CORPORATE &amp; OTHER</b>	
OMV Petrom Gas S.R.L.	99.99%	Petromed Solutions S.R.L.	99.99%

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<sup>1</sup> 1 (one) share owned through OMV Petrom Marketing S.R.L.

#### Associated company, accounted for at equity

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OMV Petrom Global Solutions S.R.L.	25.00%
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**b. The list of the persons affiliated to the company**

<b>Code of Company</b>	<b>OMV Group consolidated companies - including OMV Petrom Group consolidated companies as of 31 December 2017</b>
OMV	OMV Aktiengesellschaft
ABU	OMV Abu Dhabi E&P GmbH
AGGM	AGGM Austrian Gas Grid Management AG
ALAIN	OMV East Abu Dhabi Exploration GmbH
BORA	Borealis AG
BORASC	OMV Samsun Elektrik Üretim Sanayi ve Ticaret A.Ş.
BULG	OMV BULGARIA OOD
DIRA	Diramic Insurance Limited
DTAL	Deutsche Transalpine Oelleitung GmbH
ECOGAS	OMV Gas Marketing & Trading GmbH
ECONDE	OMV Gas Marketing & Trading Deutschland GmbH
ECONHR	OMV Gas Marketing & Trading d.o.o.
ECONHU	OMV Gas Marketing & Trading Hungária Kft.
ECONIT	OMV Gas Marketing & Trading Italia S.r.l.
ELG	Erdöl-Lagergesellschaft m.b.H.
EMPA	E-Mobility Provider Austria GmbH
ENERCO	Enerco Enerji Sanayi Ve Ticaret A.Ş.
EPSKG	EPS Ethylen-Pipeline-Süd GmbH & Co KG
FETRAT	FE-Trading GmbH
FETRDE	FE-Trading Deutschland GmbH
FETRSI	FE-Trading trgovina d.o.o.
FREYKG	Freya Bunde-Etzel GmbH & Co. KG
GASTR	OMV Enerji Ticaret Anonim Şirketi
GENOL	GENOL Gesellschaft m.b.H. & Co KG
HUB	Central European Gas Hub AG
ISERV	OMV - International Services Ges.m.b.H.
KONAI	KOM MUNAI LLP
MAURI	OMV Maurice Energy GmbH
MAURIL	OMV Maurice Energy Limited
MOLDO	Petrom-Moldova S.R.L.
NZEA	OMV New Zealand Limited
OABUAE	OMV Abu Dhabi Offshore GmbH
OAFR	OMV (AFRICA) Exploration & Production GmbH
OAUST	OMV AUSTRALIA PTY LTD
OBERMG	OMV (Berenty) Exploration GmbH
OBINA	OMV Bina Bawi GmbH
OCTS	OMV Clearing und Treasury GmbH
OEPA	OMV Austria Exploration & Production GmbH
OETAL	Transalpine Ölleitung in Österreich Gesellschaft m.b.H.
OFFBLG	OMV Offshore Bulgaria GmbH
OFFMOR	OMV Offshore Morondava GmbH
OFS	OMV Finance Services GmbH
OFSNOK	OMV Finance Services NOK GmbH
OFSUSD	OMV Finance Solutions USD GmbH
OGEX	OMV Oil and Gas Exploration GmbH
OGG	GAS CONNECT AUSTRIA GmbH
OGI	OMV Gas & Power GmbH
OGMTF	OMV Gas Marketing Trading & Finance B.V.
OGNOND	OMV (Gnondo) Exploration GmbH
OGNOGA	OMV (Gnondo) Exploration S.A.
OGSA	OMV Gas Storage GmbH
OGSG	OMV Gas Storage Germany GmbH
OHARTR	Haramidere Depoculuk Anonim Şirketi
OHUN	OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság
OILEXP	OMV Oil Exploration GmbH
OILPRO	OMV Oil Production GmbH
OIRAN	OMV (IRAN) onshore Exploration GmbH
OJA3	OMV Jordan Block 3 Upstream GmbH
OKH	OMV Kraftwerk Haiming GmbH
OLIB	OMV OF LIBYA LIMITED
OMANGA	OMV (Manga) Exploration GmbH
OMAGA	OMV (Manga) Exploration S.A.
OMANMG	OMV (Mandabe) Exploration GmbH

<b>Code of Company</b>	<b>OMV Group consolidated companies - including OMV Petrom Group consolidated companies as of 31 December 2017</b>
OMBELI	OMV (Mbeli) Exploration GmbH
OMBEGA	OMV (Mbeli) Exploration S.A.
OMVD	OMV Deutschland GmbH
OMVEP	OMV Exploration & Production GmbH
OMVINT	OMV International Oil & Gas GmbH
OMVRM	OMV Refining & Marketing GmbH
OMVRUS	OMV Russia Upstream GmbH
OMVSK	OMV Slovensko s.r.o.
ONAMEX	OMV (Namibia) Exploration GmbH
ONAFRU	OMV Offshore (Namibia) GmbH
ONOR	OMV (NORGE) AS
ONTSIN	OMV (Ntsina) Exploration GmbH
ONTSGA	OMV (Ntsina) Exploration S.A.
ONSHOL	OMV Switzerland Holding AG
OPEI	Preussag Energie International GmbH
OPGSOL	OMV Petrom Global Solutions S.R.L.
OPK	OMV (PAKISTAN) Exploration Gesellschaft m.b.H.
OMEA	OMV Middle East & Africa GmbH
ORMMEA	OMV Refining & Marketing Middle East & Asia GmbH
OSERB	OMV SRBIJA d.o.o.
OSUP	OMV Supply & Trading AG
OTCH	OMV Česká republika, s.r.o.
OTNPRO	OMV (Tunesien) Production GmbH
OTNUP	OMV Tunisia Upstream GmbH
OTRAD	OMV Supply & Trading Limited
OUPi	OMV Upstream International GmbH
OWEAFR	OMV (WEST AFRICA) Exploration & Production GmbH
OYEM70	OMV Block 70 Upstream GmbH
OYEM86	OMV Myrre Block 86 Upstream GmbH
PCGAS	PEGAS CEGH Gas Exchange Services GmbH
PEARL	Pearl Petroleum Company Limited
PEPL	PETROM EXPLORATION & PRODUCTION LIMITED
PETAV	OMV PETROM Aviation S.A.
PETEX	OMV Petroleum Exploration GmbH
PETGAS	OMV Petrom GAS S.R.L.
PETMED	Petromed Solutions S.R.L.
PIL	Petroleum Infrastructure Limited
POGI	OMV Gaz Iletim A.Ş.
ROMAN	OMV Petrom Marketing S.R.L.
SIOT	Società Italiana per l'Oleodotto Transalpino S.p.A.
SLOVJA	OMV SLOVENIJA trgovina z nafto in naftnimi derivati, d.o.o.
SMATKG	SMATRICES GmbH & Co KG
SNGPRU	OJSC SEVERNEFTEGAZPROM
SNO	OMV Solutions GmbH
TAG	Trans Austria Gasleitung GmbH
TASBU	TASBULAT OIL CORPORATION LLP
YEALMA	OMV (YEMEN) Al Mabbar Exploration GmbH
YEM2	OMV (Yemen Block S 2) Exploration GmbH
YRGMRU	JSC GAZPROM YRGM Development

### c. Definitions

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#### Liquidity ratios

Current ratio= Current assets<sup>1)</sup> / Current liabilities<sup>2)</sup>

Acid test= (Current assets<sup>1)</sup> - Inventories) / Current liabilities<sup>2)</sup>

<sup>1)</sup> include assets held for sale; <sup>2)</sup> include liabilities associated with assets held for sale

#### Risk ratios

Gearing ratio= Net debt/ Equity in %

Net debt= Interest- bearing debts + Liabilities on finance leases- Cash and cash equivalents

Indebtedness ratio= Interest- bearing debts (long term)/ Equity in %

Equity ratio= Equity/ (Total Assets) in %

#### Operational ratios

Stock turnover – days<sup>3)</sup>= Average inventories/ (Purchases (net of inventory variation) + Production and operating expenses + Production and similar taxes + Depreciation, amortization and impairment charges) in days

Days in receivables – days= Average trade receivables/ Sales revenues in days

Tangible assets turnover= Sales revenues/ Tangible assets

Total assets turnover= Sales revenues/ Total assets

<sup>3)</sup> the definition was updated following new Income Statement structure; the previous definition was: Stock turnover – days= Average inventories/ Cost of sales in days

#### Profitability ratios

Net profit margin= Net income for the year/ Sales revenues in %

Operating Result margin= Operating Result/ Sales revenues in %

Operating Result before depreciation margin= Operating Result before depreciation/ Sales revenues in %

Operating Result before depreciation= Operating Result + Depreciation and amortization + Net impairment losses

Return on fixed assets (ROFA)= Operating Result/ Average fixed assets in %

Return on equity (ROE)= Net income for the year/ Average equity in %

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