OMV PETROM S.A.

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2016

Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards

TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

Translation of the Company's separate financial statements issued in the Romanian language

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OMV Petrom S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OMV Petrom S.A. ("the Company") which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of the carrying value of property, plant and equipment (Upstream) The carrying value of the Upstream property, plant and equipment amounted to RON 20,789 million as at 31 December 2016. Declines in crude oil and gas prices since 2014 have had a significant effect on the carrying value of the Company's Upstream tangible assets, as reflected by the Upstream impairment charges recorded in the 2015 financial statements. Under IFRS, an entity is required to assess whether impairment indicators exist. The assessment of whether there is an indication that an asset may be impaired requires significant judgement. The management established that the main risks and consequently the potential triggering events are estimates regarding long term Brent oil price, production volumes and production costs. The Company's disclosures about property, plant and equipment and related triggering events analysis are included in Note 2 (Judgements, Estimates and Assumptions) and Note 6 (Property, Plant and Equipment) to the financial statements.	We evaluated and tested management's assessment of the potential impairment indicators. Specifically our work included, but was not limited to the following procedures: • Analysis and evaluation of management's assessment of the existence of impairment indicators (triggering events); • Comparison of the average oil price in 2016 with the estimated oil price in the budget prepared for 2016; • Comparison of the actual production volumes and costs in 2016 of each cash generating unit with the production volumes and costs estimates in the budget prepared for 2016; • Comparison of future short and long term oil and gas prices used in the Company's budgets to consensus analysts' forecasts and those adopted by other international oil companies; • Assess the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; and • Check if there are significant downward revisions of oil and gas reserves to determine if they represent impairment indicators.

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Key audit matter	How our audit addressed the key audit matter
Recoverability of intangible exploration and evaluation (E&E) assets The carrying value of the intangible E&E assets amounted to RON 2,426 million at 31 December 2016, after a write off (impairment) of RON 120 million in 2016. Under IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The assessment of the carrying value requires management to apply significant judgements and estimates in assessing whether any impairment has arisen at year end, and in quantifying any such impairment. The key estimates and assumptions relate to management's intention to proceed with a future work program for a prospect or licence, the likelihood of licence renewal, and the success of drilling and geological analysis to date. The Company's disclosures about intangible E&E assets and related impairment testing are included in Note 2 (Judgements, Estimates and Assumptions), Note 5 (Intangible Assets) and Note 20 (Cost Information) to the financial statements.	We evaluated management's assessment of the carrying value of E&E assets performed with reference to the criteria of IFRS 6 and the Company's accounting policy. Specifically our work included, but was not limited to, the following procedures: • Assess the management's intention to carry out exploration and evaluation activity for the main E&E projects, which included discussions with management and review of the Executive Board minutes of meetings where exploration plans and strategies were discussed; • Read Executive Board minutes of meetings and consider whether there were negative indicators that certain projects might be unsuccessful. Discuss with the management about the status of the largest exploration projects; • Test of actual versus budget analysis prepared by management for exploration and evaluation largest projects and inspection of evidence supporting the analysis to determine if there is any indication that certain projects might be unsuccessful; • Assess whether the Company has the ability to finance any planned future exploration and evaluation activity, which included review of the Executive Board minutes of meetings for any indications about the lack of such ability or intention and checking that the investment budget for the next year includes funds for main exploration and evaluation projects; • Identification of the existence of any fields where the Company's right to explore is either at, or close to, expiry and review management's assessment whether there are any risks related to renewal of the licence; and • Review of supporting evidence where an exploration and evaluation asset has been impaired.

Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves Oil and gas reserves are an indicator of the future potential of the Company's performance. Furthermore, they have an impact on the financial statements as they are the basis for production profiles in future cash flow estimates and basis for depreciation and amortization for the core assets in the Upstream segment. The estimation of oil and gas reserves requires significant judgement and assumptions made by management and engineers. The Company's disclosures about estimation of oil and gas reserves are included in Note 2 (Judgements, Estimates and Assumptions) to the financial statements.	Our audit procedures have focused on management's estimation process in the determination of oil and gas reserves. Specifically our work included, but was not limited to, the following procedures: • Perform a detailed understanding of the Company's internal process and related documentation flow and key controls associated with the oil and gas reserves estimation process; • Test Company-wide key controls over the reserves review process; • Analysis of the internal certification process for technical and commercial specialists who are responsible for oil and gas reserves estimation; • Assess the competence of both internal and external specialists and the objectivity and independence of external specialists, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; • Analyse the report of the external specialists on their audit of Company's estimated oil and gas reserves as at 31 December 2015; • Test whether significant additions or reductions in oil and gas reserves were made in the appropriate period and in compliance with the Company's Reserves and Resources Technical Standards and Guidelines; and • Test that the updated oil and gas reserves estimates were included appropriately in the Company's consideration of impairment and in accounting for depreciation and amortization.

Key audit matter	How our audit addressed the key audit matter
Estimation of decommissioning and restoration provisions and environmental provisions The total decommissioning and restoration provision and the environmental provision amounted to RON 8,113 million and RON 377 million respectively at 31 December 2016. The Company's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation activities. The key estimates and assumptions relate to management's estimates of future costs, discount rates and inflation rates which are used to project the decommissioning, restoration and environmental obligations. The Company's disclosures about decommissioning, restoration and environmental obligations are included in Note 2 (Judgements, Estimates and Assumptions) and Note 13 (Provisions) to the financial statements.	We assessed management's annual estimation of decommissioning and restoration provisions and environmental provisions. Specifically our work included, but was not limited to, the following procedures: • Perform a detailed understanding of the Company's internal provision estimation process and the related documentation flow and the assessment of the design and implementation of the controls within the process; • Compare current estimates of decommissioning, restoration and environmental costs with the actual costs incurred in previous periods. Where no previous data was available, we have reconciled cost estimates to third party support or the Company's engineers' estimates; • Discuss with the management the estimates of allocation over time of works to be performed for surface and subsurface decommissioning for wells; • Inspection of supporting evidence for any material revisions in cost estimates during the year; • Assess the sensitivity analyses to understand the potential impact of reasonable changes in assumptions on the provisions recorded; • Involvement of our valuation specialists to assist us in performing industry bench marking and analysis over discount rates and inflation rates; and • Test of the mathematical accuracy of management's decommissioning and restoration provision and environmental provision calculations.

Key audit matter	How our audit addressed the key audit matter
Recoverability of receivables from the Romanian State As part of the privatization agreement, the Company is entitled to the reimbursement by the Romanian State of part of wells abandonment (decommissioning) and environmental costs incurred to restore and clean up areas pertaining to activities prior to privatization in 2004. Consequently, the Company has recorded as receivable from the Romanian State the estimated decommissioning obligations having a net present value of RON 2,130 million as at December 31, 2016 and the environmental liabilities in Upstream and Downstream Oil with a total net present value of RON 328 million, as these were existing prior to privatization of OMV Petrom S.A. The assessment of the recoverability of the receivables from the Romanian State, requires management to make significant judgements and estimates to assess the uncertainty regarding the expenditure recoverable from Romanian State. The assessment process considers inter alia history of amounts claimed, documentation process related requirements and potential litigation or arbitration proceedings. The Company's disclosures about Environmental and Decommissioning State Receivables are included in Note 8 (Trade Receivables and Other Financial Assets) to the financial statements.	We assessed the management's estimate regarding recoverability of the receivables from the Romanian State. Our work included, but was not limited to, the following procedures: • Read the stipulations of the Annex P of the privatisation agreement dated 23 July 2004, related to the acquisition by OMV Aktiengesellschaft of shares in the National Petroleum Company Petrom SA, as approved by Law no. 555/2004. Annex P includes stipulations related to the obligation of the seller (i.e. Ministry of Economy and Commerce) to reimburse the Company for historical environmental losses and abandonment costs, provided certain conditions are met; • Review the management's assessment of the recoverability of the receivables from the Romanian State, including the history of amounts claimed vs. amounts accepted and reimbursed, and discuss about the status of the notices of claims submitted by the Company and of the Arbitration process; • Trace the receivables for which notices of claim have been submitted to the respective notices of claims; • Trace the receivables for which decommissioning was performed but the notices of claim have not yet been submitted to the respective decommissioning costs; • Trace the receivables for which decommissioning has not yet been performed against the respective decommissioning provisions; • Discuss with the management the estimates of timing of collection; and • Test of the mathematical accuracy of the calculation of the net present value of the receivables recorded.

Other information

The other information comprises the Annual report prepared for OMV Petrom Group, the Supervisory Board Report which includes the Director's Report, and the Report on payments to governments, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Directors' Report, we have read the Directors' Report and report that:

a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at 31 December 2016;

b) the Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;

c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at 31 December 2016, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

On behalf of

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors in Romania
No. 77/15 August 2001

Name of signing person: Bogdan Ion

Camera Auditorilor Financiari din România
Ion Bogdan
Nr. 1565

Registered with the Chamber of Financial Auditors in Romania
No. 1565/29 July 2004

Bucharest, Romania
23 March 2017

OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Intangible assets	**5**	2,513.65	2,411.08
Property, plant and equipment	**6**	26,199.73	27,087.03
Investments	**7**	1,826.44	1,800.90
Other financial assets	**8**	3,530.35	3,641.17
Other assets	**9**	63.62	66.92
Deferred tax assets	**17**	1,478.16	1,492.98
Non-current assets		**35,611.95**	**36,500.08**
Inventories	**10**	1,508.38	1,556.92
Trade receivables	**8**	1,393.07	1,216.01
Other financial assets	**8**	505.75	394.35
Other assets	**9**	229.30	452.25
Cash and cash equivalents		1,853.76	666.21
Current assets		**5,490.26**	**4,285.74**
Assets held for sale	**11**	260.34	108.59
Total assets		**41,362.55**	**40,894.41**
EQUITY AND LIABILITIES			
Share capital	**12**	5,664.41	5,664.41
Reserves		20,336.40	19,426.78
Total equity		**26,000.81**	**25,091.19**
Provisions for pensions and similar obligations	**13**	217.24	231.88
Interest-bearing debts	**14**	725.69	903.66
Provisions for decommissioning and restoration obligations	**13**	7,764.92	7,798.15
Other provisions	**13**	2,532.97	2,280.87
Other financial liabilities	**15**	158.27	245.18
Non-current liabilities		**11,399.09**	**11,459.74**

OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2016	December 31, 2015
Trade payables		1,689.84	1,817.57
Interest-bearing debts	14	733.54	551.15
Income tax liabilities		84.44	65.80
Other provisions and decommissioning	13	670.68	879.37
Other financial liabilities	15	177.12	517.30
Other liabilities	16	481.36	512.29
Current liabilities		**3,836.98**	**4,343.48**
Liabilities associated with assets held for sale	11	125.67	-
Total equity and liabilities		**41,362.55**	**40,894.41**

These financial statements were approved on March 23, 2017.

Mariana Gheorghe
Chief Executive Officer

Andreas Matje
Chief Financial Officer

Peter Zeilinger
Executive Board Member Upstream

Lăcrămioara Diaconu-Pințea
Executive Board Member Downstream Gas

Neil Morgan
Executive Board Member Downstream Oil

Irina-Nadia Dobre
Director Finance Department

Nicoleta-Mihaela Drumea
Head of Financial Reporting

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2016	December 31, 2015
Sales revenues	25	12,593.86	13,952.49
Direct selling expenses		(7.45)	(11.96)
Cost of sales		(10,885.64)	(13,473.75)
Gross profit		**1,700.77**	**466.78**
Other operating income	18	407.00	411.76
Selling expenses		(299.98)	(307.71)
Administrative expenses		(83.78)	(115.48)
Exploration expenses		(262.19)	(576.61)
Other operating expenses	19	(572.06)	(473.92)
Earnings before interest and taxes (EBIT)	25	**889.76**	**(595.18)**
Income from investments	21	392.20	585.49
Interest income	22	200.01	268.55
Interest expenses	22	(325.42)	(400.75)
Other financial income and expenses	23	(104.84)	(554.94)
Net financial result		**161.95**	**(101.65)**
Profit/ (loss) before taxation		**1,051.71**	**(696.83)**
Taxes on income	24	(143.86)	66.19
Net income/ (loss) for the year		**907.85**	**(630.64)**

These financial statements were approved on March 23, 2017.

Mariana Gheorghe
Chief Executive Officer

Andreas Matje
Chief Financial Officer

Peter Zeilinger
Executive Board Member Upstream

Lăcrămioara Diaconu-Pințea
Executive Board Member
Downstream Gas

Neil Morgan
Executive Board Member
Downstream Oil

Irina-Nadia Dobre
Director Finance Department

Nicoleta-Mihaela Drumea
Head of Financial Reporting

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	December 31, 2016	December 31, 2015
Net income/ (loss) for the year	**907.85**	**(630.64)**
Unrealized gains on hedges	-	65.42
Realized gains on hedges recycled to income statement	(14.21)	(51.21)
Total of items that may be reclassified (“recycled”) subsequently to the income statement	**(14.21)**	**14.21**
Remeasurement gains on defined benefit plans	15.95	34.14
Total of items that will not be reclassified (“recycled”) subsequently to the income statement	**15.95**	**34.14**
Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	2.27	(2.27)
Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(2.55)	(5.47)
Total income tax relating to components of other comprehensive income	**(0.28)**	**(7.74)**
Other comprehensive income for the year, net of tax	**1.46**	**40.61**
Total comprehensive income/ (loss) for the year	**909.31**	**(590.03)**

OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Share capital	Retained earnings	Other reserves	Cash flow hedging reserves	Treasury shares	Stockholders' equity
Balance at January 1, 2016	**5,664.41**	**12,895.66**	**6,519.20**	**11.94**	**(0.02)**	**25,091.19**
Net income for the year	-	907.85	-		-	907.85
Other comprehensive income/(loss) for the year	-	13.40	-	(11.94)	-	1.46
Total comprehensive income/(loss) for the year	**-**	**921.25**	**-**	**(11.94)**	**-**	**909.31**
Other increases	**-**	**-**	0.31	**-**	**-**	0.31
Balance at December 31, 2016	**5,664.41**	**13,816.91**	**6,519.51**	**-**	**(0.02)**	**26,000.81**

Note: For details on equity components, see Note 12.

OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
(all amounts are expressed in million RON, unless otherwise specified)

	Share capital	Retained earnings	Other reserves	Cash flow hedging reserves	Treasury shares	Stockholders' equity
Balance at January 1, 2015	**5,664.41**	**14,132.04**	**6,519.20**	**-**	**(0.02)**	**26,315.63**
Net loss for the year	-	(630.64)	-		-	(630.64)
Other comprehensive income for the year	-	28.67	-	11.94	-	40.61
Total comprehensive income/(loss) for the year	**-**	**(601.97)**	**-**	**11.94**	**-**	**(590.03)**
Dividends distribution	-	(634.41)	-	-	-	(634.41)
Balance at December 31, 2015	**5,664.41**	**12,895.66**	**6,519.20**	**11.94**	**(0.02)**	**25,091.19**

Note: For details on equity components, see Note 12.

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

	Notes	December 31, 2016	December 31, 2015
Cash flow from operating activities			
Profit/ (loss) before taxation		**1,051.71**	**(696.83)**
Adjustments for:			
Dividend income	**21**	(392.20)	(585.49)
Interest income	**22**	(166.78)	(225.55)
Interest expenses and other financial expenses	**22, 23**	68.19	86.38
Net movement in provisions and allowances for:			
- Financial assets		3.70	172.18
- Inventories		(72.74)	11.99
- Receivables		230.79	31.94
- Pensions and similar liabilities		1.31	(9.24)
- Decommissioning and restoration obligations		(16.83)	(47.96)
- Other provisions for risk and charges		3.35	271.94
Discounting/Write-off of receivables and other similar items		42.97	115.19
(Gain)/Loss on disposals of financial assets		0.07	(0.29)
Gain on disposals of non-current assets	**18, 19**	(11.23)	(5.96)
Depreciation, amortization and impairment expense, net	**5, 6, 20**	3,248.48	6,128.33
Other non-cash items		(42.10)	(101.06)
Dividends received		392.20	585.49
Interest received		40.50	233.92
Interest paid		(55.19)	(295.55)
Tax on profit paid		(110.55)	(620.89)
Cash generated from operating activities before working capital movements		**4,215.65**	**5,048.54**
Decrease in inventories		52.72	230.81
(Increase)/Decrease in receivables and other assets		(101.27)	775.95
Decrease in liabilities		(32.73)	(84.55)
Net cash generated from operating activities		**4,134.37**	**5,970.75**
Cash flow from investing activities			
Investments			
Intangible assets and property, plant and equipment		(2,796.93)	(4,854.71)
Investments in subsidiaries	**28**	(0.92)	(91.89)
Net loans reimbursed/ (given) by (to) subsidiaries		(73.39)	88.52
Disposals			
Proceeds from sale of non-current assets		22.09	63.14
Proceeds from disposal of financial assets	**28**	0.15	197.81
Net cash used for investment activities		**(2,849.00)**	**(4,597.13)**
Cash flow from financing activities			
Increase in/ (Repayment of) loans taken from subsidiaries		216.17	(878.59)
Net repayment of other borrowings	**28**	(313.76)	(152.61)
Dividends paid		(0.51)	(630.59)
Net cash used for financing activities		**(98.10)**	**(1,661.79)**
Effect of foreign exchange rate changes on cash and cash equivalents		0.28	8.79
Net increase/(decrease) in cash and cash equivalents		**1,187.55**	**(279.38)**
Cash and cash equivalents at the beginning of the year		**666.21**	**945.59**
Cash and cash equivalents at the end of the year		**1,853.76**	**666.21**

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION

OMV Petrom S.A. (22 Coralilor Street, 013329 Bucharest, Romania), hereinafter referred to also as “the Company” or “OMV Petrom”, has activities in Upstream, Downstream Gas and Downstream Oil business segments and it is listed on Bucharest Stock Exchange under “SNP” code and on London Stock Exchange under “PETB” and “PETR” codes.

Shareholders’ structure as at December 31, 2016 was as follows:

	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	12.57%
Legal entities and private individuals	15.78%
Total	**100.00%**

Shareholders’ structure as at December 31, 2015 was as follows:

	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	18.99%
Legal entities and private individuals	9.36%
Total	**100.00%**

On October 20, 2016, following the closing of the secondary public offering of Property Fund S.A. of 3,641,100,108 shares owned in OMV Petrom S.A. in the form of shares and global depositary receipts ("GDRs") (each GDR represents 150 shares), Citibank, N.A., a national banking association organized under the laws of the United States of America, issued 2,492,328 GDRs representing 373,849,200 ordinary shares with a par value of RON 0.1 per share of the Company.

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.

As of December 31, 2016 the number of GDRs is 1,756,419, equivalent of 263,462,850 ordinary shares, representing 0.0047% from the share capital.

Statement of compliance

The separate financial statements (“financial statements”) of the Company have been prepared in accordance with the provisions of Ministry of Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

The Company also prepares consolidated financial statements in accordance with IFRS as endorsed by the EU, which are available on the Company’s website www.omvpetrom.com/portal/01/petromcom/petromcom/OMV_Petrom/Relatia_cu_investitorii.

The financial year corresponds to the calendar year.

Basis of preparation

The financial statements of OMV Petrom S.A. are presented in RON (“Romanian Leu”), using going concern principles. All values are presented in millions, rounded to the nearest two decimals. The financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value. For financial assets and liabilities where fair value differs from carrying amounts at the reporting date, fair values have been disclosed in Note 29.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets, liabilities, income and expenses, the accompanying disclosures and the disclosure of contingent liabilities. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in actual outcomes that may differ from these estimates and may require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties in relation to capital management and financial risk management and policies are included in Note 32.

Changes in estimates are accounted for prospectively.

Correction of material prior period errors is made retrospectively, on account of retained earnings, by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Errors which are not material are corrected in the period when they are discovered, through the income statement.

Estimates and assumptions

The key assumptions concerning the future and other key sources of uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

a) Oil and gas reserves

Mineral reserves (oil and gas reserves) are estimated by the Company's own engineers. The estimates are audited externally every two years. Commercial reserves are determined using estimates of hydrocarbons in place, recovery factors and future oil and gas prices.

The oil and gas assets are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2016 is shown in Note 5 and 6.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets should be impaired.

b) Decommissioning costs

The Company's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation activities. These decommissioning and restoration obligations are principally of material importance in the Upstream segment (oil and gas wells, surface facilities). At the time the obligation arises, it is provided for in full by recognizing the present value of future decommissioning and restoration expenses as a liability. An equivalent amount is capitalized as part of the carrying amount of long-lived assets.

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the facilities and properties.

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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates of future restoration costs are based on current contracts concluded with suppliers, reports issued by OMV Petrom engineers as well as past experience. Provisions for restoration costs require estimates of discount rates and inflation rates. These estimates have a material effect on the amount of the provisions (see Note 13).

The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results.

c) Impairment of non-financial assets

The Company assesses each asset or cash generating unit (CGU) for each reporting period to determine whether any indication of impairment exists. When an indicator exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. Except for the assets whose carrying amount will be recovered through a sale transaction rather than through continuing use, for all impairment tests performed, the recoverable amount was based on value in use. The assessments require the use of different estimates and assumptions depending on the business such as crude oil prices, discount rates, reserves, growth rates, gross margins and spark spreads.

Impairment testing in Upstream

Based on management estimations regarding long term Brent oil price, production volumes and production costs, it was concluded that there are no triggering indicators for performing an impairment test for Upstream CGUs in 2016, either due to indicators of additional impairment or due to indicators for a reversal of impairment.

In 2015, considering the significant decline in oil prices and increased market volatility, the Company considered that indications of impairment were present. As a result, an impairment test was performed for the Upstream CGUs of the Company as of December 31, 2015.

The nominal oil price assumptions and the RON/USD exchange rate used for impairment testing as of December 31, 2015 are listed below:

	2016	2017	2018	2019	2020 and thereafter
Brent oil price (USD/bbl)	40	55	65	70	75
RON/USD exchange rate	3.91	3.91	3.91	3.91	3.91
Brent oil price (RON/bbl)	156	215	254	274	293

The key valuation assumptions for the recoverable amounts of Upstream assets are the oil and natural gas prices, production volumes and the discount rates. The production profiles were estimated based on past experience and represent management's best estimate of future production. The cash-flow projections for the first five years are based on the mid-term plan and thereafter on a "life of field" planning, and therefore cover the whole life term of the field. The revised assumptions led to total impairments of RON 2,460.67 million recognized in 2015, covering mainly oil and gas production assets. Recoverable amount of assets impaired, computed with an after-tax discount rate of 7.79%, is RON 3,710.61 million as of December 31, 2015.

The pre-tax discount rates used as of December 31, 2015 ranged between 6.81% and 10.10%. The recoverable amounts were based on the value in use.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment testing in Downstream

Based on management estimations regarding long term power market development in respect of spark spreads and net electrical output, it was concluded that there are no triggering indicators for performing an impairment test for Brazi power plant in 2016 and 2015.

d) Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is probable that future economic benefits are likely either from future operation or sale or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in the income statement in the period when the new information becomes available.

e) Recoverability of State receivable

Management is periodically assessing the receivable related to expenditure recoverable from the Romanian State. The assessment process considers inter alia history of amounts claimed, documentation process related requirements and potential litigation or arbitration proceedings.

Judgments

In the process of applying the Company's accounting policies, the following judgments were made, particularly with respect to the following:

a) Cash generating units

Management exercises judgment in determining the appropriate level of grouping Upstream assets into CGUs, in particular with respect to the Upstream assets which share significant common infrastructure and are consequently grouped into the same CGU.

b) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3. ACCOUNTING AND VALUATION PRINCIPLES

3.1. First time adoption of new or revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to the existing standards which have been adopted by the Company as of 1 January 2016, but had no significant effects on the financial statements:

- **IAS 27 Separate Financial Statements (amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. In 2016, management did not make use of this amendment.

- **IAS 1: Disclosure Initiative (Amendment)**
  The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**
  The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016.

3.2. New or revised standards and interpretations not yet mandatory

At the date of authorization of these financial statements the following standards, revisions and interpretations were issued by IASB, but are not yet effective and were not early adopted by the Company:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
  The Company is currently assessing the impact of adopting IFRS 9 on the Company's financial statements. IFRS 9 is not expected to significantly change the recognition and measurement of OMV Petrom S.A. financial assets and liabilities.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

  The Company is currently assessing the impact of adopting IFRS 15 on the Company's separate financial statements. In this assessment the clarifications issued by the IASB in April 2016 are considered and any further developments are monitored. The Company plans to adopt the new standard in its separate financial statements for the year ending 31 December 2018, using the cumulative effect method.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Company is currently assessing the impact of adopting IFRS 16 on its financial statements. The most significant potential impact identified so far is that the Company might have to recognize new assets and liabilities for all or some of its operating leases, depending on the results of the analysis. In this case, in the income statement, depreciation charges and interest expense would be reported instead of lease expense. Some commitments may be covered by the exceptions for short-term and low-value leases. There is no significant impact expected on the existing finance leases.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

- **IAS 7: Disclosure Initiative (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

- **IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

3.3. Summary of accounting and valuation principles

a) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred. Pre-license prospecting is performed in the very preliminary stage of evaluation when trying to identify areas that may potentially contain oil and gas reserves without having physical access to the area. Related costs may include seismic studies, magnetic measurements, satellite and aerial photographs, gravity-meter tests etc.

b) Licence acquisition costs

Exploration licence acquisition costs are capitalized in intangible assets.

Licence acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence acquisition costs is written off through the income statement.

Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas assets.

c) Exploration and evaluation costs

Exploration and evaluation costs are accounted for using the successful efforts method of accounting. Costs related to geological and geophysical activity are expensed as and when incurred. The costs associated to exploration and evaluation drilling are initially capitalized as oil and gas assets with unproved reserves pending determination of the commercial viability of the relevant properties. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are included in the income statement for the year. If the prospects are deemed commercially viable, such costs are transferred to tangible oil and gas assets upon recognition of proved reserves and internal approval for development. The status of such prospects and related costs are reviewed regularly by technical, commercial and executive management including review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

d) Development and production costs

Development costs including costs incurred to gain access to proved reserves and to prepare development wells locations for drilling, to drill and equip development wells and to construct and install production facilities, are capitalized as oil and gas assets.

Production costs, including those costs incurred to operate and maintain wells and related equipment and facilities (including depletion, depreciation and amortization charges as described below) and other costs of operating and maintaining those wells and related equipment and facilities, are expensed as incurred.

e) Intangible assets and property, plant and equipment

Intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses.

Property, plant and equipment are recognized at cost of acquisition or construction and are presented net of accumulated depreciation and impairment losses.

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to their present location and condition necessary for their intended use. The cost of self-constructed assets includes cost of direct materials, labour, overheads and other directly attributable costs that have been incurred in bringing the assets to their present location and condition.

Depreciation and amortization is calculated on a straight-line basis, except for Upstream assets, where depletion occurs to a large extent on a unit-of-production basis. In the income statement, depreciation and amortization as well as impairment losses for exploration assets are disclosed as exploration expenses, and those for other assets are reported as cost of sales, selling expenses or as administrative expenses.

Intangible assets	**Useful life (years)**
Software	3 - 5
Concessions, licences and other intangibles	5 - 20, or contract duration
Business-specific property, plant and equipment	
Upstream Oil and gas core assets	Unit of production method
Downstream Gas Pipelines	20 - 30
Downstream Gas Power plant	8 - 30
Downstream Oil Storage tanks and refinery facilities	25 - 40
Downstream Oil Pipeline systems	20
Other property, plant and equipment	
Production and office buildings	20 - 50
Other plant and equipment	10 - 20
Fixtures and fittings	5 - 10

For the application of the unit of production depreciation method, the Company has separated the areas where it operates into regions. The unit of production factor is computed at the level of each productive region, based on the extracted quantities and the proved reserves or proved developed reserves as applicable.

Capitalized exploration and evaluation activities are generally not depreciated as long as they are related to unproved reserves, but tested for impairment. Once the reserves are proved and commercial viability is established, the related assets are reclassified into tangible assets and once production starts depreciation commences. Capitalized development costs and support equipment are generally depreciated based on proved developed reserves/ total proved reserves by applying the unit-of-production method once production starts.

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

Under the successful efforts method individual mineral interests and other assets are combined to cost centers (fields, blocks, areas), which are the basis for depreciation and impairment testing. If single wells or other assets from a pooled depreciation base with proved reserves are abandoned, the accumulated depreciation for the single asset might be not directly identifiable. In general, irrespective if book values of abandoned assets are identifiable, no loss is recognized from the partial relinquishment of assets from a pooled depreciation base as long as the remainder of the group of properties continues to produce oil or gas. It is assumed that the abandoned or retired asset is fully amortized. The capitalized costs for the asset are charged to the accumulated depreciation base of the cost center.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Where an asset or part of an asset, that was separately depreciated and is now written off, is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off.

Assets classified as held for sale are disclosed at the lower of carrying value and fair value net of any disposal costs. Non-current assets and groups of assets are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. This classification requires that the sale must be estimated as highly probable, and that the asset must be available for immediate disposal in its present condition. The highly probable criteria implies that management must be committed to the sale and an active plan to locate a buyer was initiated, the transaction should be expected to qualify for recognition as a completed sale within one year from the date of classification (except certain conditions are met), the asset is actively marketed at a price that is reasonable in relation to its current fair value and that it is unlikely that significant changes will occur to the sale plan or that the plan will be withdrawn. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Impairment of intangible assets and property, plant and equipment

In accordance with IAS 36, intangible assets as well as property, plant and equipment are reviewed at reporting date for any indications of impairment. For intangible assets with indefinite useful lives, impairment tests are carried out annually. This applies even if there are no indications of impairment.

If any indication exists, or when annual impairment test for an asset is required, the Company estimates the asset’s recoverable amount, being the higher of fair value less costs of disposal and its value in use.

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized to reduce the asset to its lower recoverable amount. Impairment losses are recognized in the income statement in expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed up to the asset’s depreciated cost if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is recognized under other operating income.

f) Major maintenance and repairs

The capitalized costs of regular and major inspections and overhauls are separate components of the related asset or asset groups. The capitalized inspection and overhaul costs are amortized on a straight line basis, or on basis of the number of service hours or produced quantities or similar, if this better reflects the time period for the inspection interval (until the next inspection date).

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection.

Cost of major remedial activities for wells workover, if successful, is also capitalized and depreciated using the unit-of-production method.

All other day-to-day repairs and maintenance costs are expensed as incurred.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

g) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

A finance lease is defined as a lease which transfers substantially all the risks and rewards incidental to the ownership of the related asset to the lessee. All leases which do not meet the definition of a finance lease are classified as operating leases.

Non-current assets held under finance lease arrangements are capitalized at the commencement of the lease at the lower of the present value of minimum lease payments and fair value of leased property, and then depreciated over their expected useful life or the duration of the lease, if shorter. A liability equivalent to the capitalized amount is recognized, and future lease payments are split into the finance charge and the capital repayment element.

In the case of operating leases, lease payments are recognized on a straight-line basis over the lease term.

h) Financial instruments

Non-derivative financial assets

At initial recognition, the Company classifies its financial assets into the following three categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial asset. All regular way trades are recognized and derecognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

All financial instruments are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Securities are classified as at fair value through profit or loss when they are either held for trading or if they are designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognized in income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortized cost (using the effective interest rate method (EIR)) less any impairment. The EIR amortization is included in financial result in the income statement. The losses arising from impairment are recognized in the income statement in financial result for loans and in cost of sales or other operating expenses for receivables. Whether loans and receivables are impaired is assessed individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the income statement.

After initial measurement, available-for-sale financial assets are recognized at fair value. Unrealized gains and losses are disclosed separately in other comprehensive income net of any attributable tax effects. If there is objective evidence of impairment, write-downs including amounts previously recognized in other comprehensive income, are recognized in income statement. If the reason for the recognition of an impairment loss subsequently ceases to exist, the amount of the reversal up to amortized costs is included either as income in the case of debt instruments, or is taken to equity in the case of equity instruments.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Other investments are measured at acquisition cost less any impairment losses.

At each reporting date, the carrying amounts of financial assets not classified as at fair value through profit or loss are reviewed for objective evidence of impairment. Evidence of impairment may include for example indications that the debtor or issuer is experiencing significant financial difficulty, default or delinquency in payments, the probability that the debtor or issuer will enter bankruptcy or a considerable detrimental change in the debtor's or issuer's technological, economical, legal environment and/or market environment. In the case of equity instruments classified as available for sale, objective evidence would include significant or prolonged decrease in fair value below cost. Any impairment is recognized in income statement.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability that reflects the rights and obligations that the Company has retained. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

Non-derivative financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities through income statement, loans and borrowings or payables and are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

After initial measurement, liabilities are carried at amortized cost, with the exception of derivative financial instruments, which are recognized at fair value. Long-term liabilities are discounted using the effective interest rate method (EIR). Gains and losses are recognized in income statement when the liabilities are derecognized as well as through the EIR amortization process.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amount is recognized in the statement of income statement.

Derivative financial instruments

Derivative instruments are used to hedge risks resulting from changes in interest rates, currency exchange rates and commodity prices. Derivative instruments are recognized at fair value, which reflects the estimated amounts that the Company would pay or receive if the positions were closed at statement of financial position date. Quotations from banks or appropriate pricing models have been used to estimate the fair value of financial instruments at statement of financial position date.

Price calculation in these models is based on forward prices of the underlying item, on foreign exchange rates, as well as on volatility indicators existing as of statement of financial position date. Unrealized gains and losses are recognized as income or expense, except where hedge accounting is applied.

Those derivatives qualifying and designated as hedges are either (i) a fair value hedge when hedging exposure to changes in the fair value of a recognized asset or liability or (ii) a cash flow hedge when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

In the case of fair value hedges, changes in the fair value resulting from the risk being hedged for both the underlying item and the hedging instrument are recognized as income or expense.

For cash flow hedges, the effective part of the changes in fair value of the hedging instrument is recognized in other comprehensive income, while the ineffective part is recognized immediately in the income statement. Where the hedging of cash flows results in an asset or liability, the amounts that have previously been recognized in other comprehensive income are reclassified into income statement in the period in which the hedged position affects earnings.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, are accounted for as financial instruments. However, contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements are not accounted for as derivative financial instruments, but rather as executory contracts. However, even though such contracts are not financial instruments, they may contain embedded derivatives. Embedded derivatives are accounted for separately from the host contract when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized until the assets are substantially ready for their intended use or for sale. Borrowing costs include interest on bank short-term and long-term loans, amortization of ancillary costs incurred in connection with the arrangement of borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. All other costs of borrowing are expensed in the period in which they are incurred.

j) Government grants

Government grants – except for emission rights (see Note 3l) – are recognized as deferred income or deducted from the related asset where it is reasonable to expect that the granting conditions will be met and that the grants will be received.

k) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of activity less any selling expenses.

Cost of producing crude oil and gas and refined petroleum products is accounted on weighted average basis, and includes all costs incurred in the normal course of business in bringing each product to its present location and condition, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity.

Appropriate allowances are made for any obsolete or slow moving stocks based on the management's assessments.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

l) Provisions

Provisions are made for all present obligations (legal or constructive) to third parties resulting from a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provision for individual obligations is based on the best estimate of the amount necessary to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is applicable, the increase in the provision due to the passage of time is recognized as a finance cost.

The Company's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation obligations, more specifically consisting in:
- plugging and abandoning wells;
- cleaning of sludge pits;
- dismantlement of production facilities;
- restoration of producing areas in accordance with licence requirements and the relevant legislation.

These decommissioning and restoration obligations are mainly of material importance in the Upstream segment (oil and gas wells, above-ground facilities). At the time the obligation arises, it is provided for in full by recognizing as a liability the present value of future decommissioning and restoration expenses. An equivalent amount is capitalized as part of the carrying value of related property, plant and equipment. The obligation is calculated on the basis of best estimates. The capitalized asset is depreciated using the unit-of-production method for upstream activities and on straight-line basis for downstream assets.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Based on the privatization agreement of the Company, part of its decommissioning and environmental costs will be reimbursed by the Romanian State. The portion to be reimbursed by the Romanian State has been presented as receivable and reassessed in order to reflect the current best estimate of the costs at its present value, using the same discount rate as for the related provisions.

Changes in the assumptions related to decommissioning costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment (for OMV Petrom obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The unwinding of the decommissioning provision is presented as part of the interest expenses in the Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

Changes in the assumptions related to environmental costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment in the Income Statement (for Company obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The unwinding of the environmental provision is presented as part of the interest expenses in the Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The effect of changes in discount rate and timing assumptions for the receivables from the Romanian State which are additional to the changes in discount rates and timing assumptions for decommissioning costs and environmental costs is presented in the Income Statement under interest expenses or interest income.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Provisions for pensions and severance payments are calculated using the projected-unit-credit method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Actuarial gains/losses are recognized in full in the period in which they occur as follows: for pensions in other comprehensive income and for other obligations in the income statement.

Provisions for voluntary and involuntary separations under restructuring programs are recognized if a detailed plan has been approved by management prior to statement of financial position date, and an irrevocable commitment is thereby established. Voluntary amendments to employees' remuneration arrangements are recognized if the respective employees have accepted the Company's offer. Provisions for obligations under individual separation agreements are recognized at the present value of the obligation where the amounts and dates of payment are fixed and determined.

Emission allowances received free of cost from governmental authorities (EU Emissions Trading Scheme for greenhouse gas emissions allowances) reduce obligations for CO_2 emissions and are recognized based on net approach for Government Grant (i.e. zero value in accounting). Provisions are recognized only for shortfalls. The provision for a shortfall is initially measured at the best estimation of expenditure required to settle the obligation, which is the market price of the emission rights at the closing date. The related expense is recognized as emission costs, included in cost of sales. If, subsequently to the recognition of a provision, emission rights are purchased then an asset is only recognized for the excess of the emission rights over the CO_2 emissions. Any price difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

m) Taxes on income and royalties

Current tax

Current income tax is the expected tax payable or receivable on the taxable net result for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:
- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in income statement.

Deferred tax assets and deferred tax liabilities at Company level are shown net, if there is a legally enforceable right to offset and the deferred taxes relate to matters subject to the same tax jurisdiction.

Production taxes

Royalties are based on the value of oil and gas production and are included in the income statement under cost of sales.

n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other incentives.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend revenue from investments is recognized when the shareholder’s right to receive payment has been established.

Interest income is accrued using the effective interest rate, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

o) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash is considered to be cash on hand and in operating accounts in banks. Cash equivalents represent deposits and highly liquid investments with maturities of less than three months.

p) Joint arrangements

IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing the control.

As of 31 December 2016 and 31 December 2015 the Company has interests only in joint operations.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Company recognises its:

- assets, including its share of any assets held jointly
- liabilities, including its share of any liabilities incurred jointly
- revenue from the sale of its share of the output arising from the joint operation
- share of the revenue from the sale of the output by the joint operation
- expenses, including its share of any expenses incurred jointly.

The Company has interests in joint operations, therefore it recognizes its share of any assets held jointly and liabilities incurred jointly, revenue from the sale of the output by the joint operation, together with its share of the expenses incurred jointly. The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation, line by line, in its financial statements.

The material joint arrangements where OMV Petrom is partner, as well as commitments in relation to the joint arrangements, are presented in Note 31.

q) Investments in subsidiaries and associates

The investments in subsidiaries and associates are accounted for at cost less impairment losses.

4. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are converted into RON at the exchange rate on the balance sheet date, communicated by the National Bank of Romania:

Exchange rates	**December 31, 2016**	**December 31, 2015**
Euro (EUR)	4.5411	4.5245
US dollar (USD)	4.3033	4.1477

All differences resulting from foreign currency amounts settlements are recognized in income statement in the year they occurred. Unrealized foreign exchange gains and losses related to monetary items are recognized in income statement for the year.

The functional currency of the Company, assessed in accordance with IAS 21, is the RON.

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

5. INTANGIBLE ASSETS

	Concessions, licences and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2016	**1,297.47**	**3,088.30**	**4,385.77**
Additions*)	(12.37)	242.32	229.95
Transfers to tangible assets (Note 6)	(0.80)	(0.45)	(1.25)
Disposals	(0.19)	(682.95)	(683.14)
Balance as at December 31, 2016	**1,284.11**	**2,647.22**	**3,931.33**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2016	**1,190.20**	**784.49**	**1,974.69**
Amortization	6.11	-	6.11
Impairment	-	119.89	119.89
Disposals	(0.19)	(682.82)	(683.01)
Balance as at December 31, 2016	**1,196.12**	**221.56**	**1,417.68**
CARRYING AMOUNT			
As at January 1, 2016	**107.27**	**2,303.81**	**2,411.08**
As at December 31, 2016	**87.99**	**2,425.66**	**2,513.65**

*) Include the amount of RON 0.32 million representing increase from the reassessment of decommissioning asset for exploration wells (under category “Oil and gas assets with unproved reserves”), and were reduced by the amount of RON 13.09 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 8), reflected under category “Concessions, licenses and other intangible assets”.

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

6. PROPERTY, PLANT AND EQUIPMENT

COST	Land, land rights and buildings, incl. buildings on third-party property	Oil and gas assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
Balance as at January 1, 2016	**2,378.23**	**34,247.94**	**9,198.67**	**364.90**	**569.08**	**46,758.82**
Additions **)	20.41	2,159.72	(49.38)	0.13	286.26	2,417.14
Transfers *	12.13	(28.37)	265.20	12.95	(260.66)	1.25
Transfers to assets held for sale	(4.16)	(265.66)	(2.37)	(5.77)	-	(277.96)
Disposals	(36.93)	(427.16)	(294.91)	(30.17)	(82.84)	(872.01)
Balance as at December 31, 2016	**2,369.68**	**35,686.47**	**9,117.21**	**342.04**	**511.84**	**48,027.24**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at January 1, 2016	**808.88**	**14,310.05**	**4,203.76**	**227.93**	**121.17**	**19,671.79**
Depreciation	99.08	2,043.42	633.36	23.92	-	2,799.78
Impairment	1.30	308.42	7.51	1.36	9.46	328.05
Transfers *	0.13	(0.72)	0.59	-	-	-
Transfers to assets held for sale	(1.22)	(110.10)	(1.28)	(4.93)	-	(117.53)
Disposals	(27.45)	(422.48)	(286.99)	(29.48)	(82.84)	(849.24)
Write-ups	(0.17)	(1.90)	(3.06)	-	(0.21)	(5.34)
Balance as at December 31, 2016	**880.55**	**16,126.69**	**4,553.89**	**218.80**	**47.58**	**21,827.51**
CARRYING AMOUNT						
As at January 1, 2016	**1,569.35**	**19,937.89**	**4,994.91**	**136.97**	**447.91**	**27,087.03**
As at December 31, 2016	**1,489.13**	**19,559.78**	**4,563.32**	**123.24**	**464.26**	**26,199.73**

*) Net amount represents transfers from intangibles. See Note 5.

**) Include the amount of RON 171.62 million representing increase from reassessment of the decommissioning asset and the amount of RON 13.91 million representing additions in finance lease, mainly for equipment used for production of electricity and were reduced by the amount of RON 186.22 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 8), reflected under the categories "Land, land rights and buildings, incl. buildings on third-party property" (RON 2.17 million), "Plant and machinery" (RON 183.16 million), and "Other fixtures and fittings, tools and equipment" (RON 0.89 million).

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 224.13 million as at December 31, 2016 (2015: RON 255.79 million).

Expenditure capitalized in the course of construction of tangible and intangible assets includes an amount of RON 452.34 million (2015: RON 573.84 million).

For details on impairments see Note 20.

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

7. INVESTMENTS

As at December 31, 2016 the Company had investments in the following companies:

Company Name	Field of activity	Share interest percent	Cost	Valuation allowance	Net book value
Subsidiaries					
OMV Petrom Marketing S.R.L.	Fuel distribution	100.00%	1,389.86	-	1,389.86
Petrom Moldova S.R.L.	Fuel distribution	100.00%	122.57	(101.03)	21.54
Tasbulat Oil Corporation LLP*	Oil exploration and production in Kazakhstan	100.00%	307.64	(307.64)	-
OMV Petrom Gas S.R.L.	Gas distribution	99.99%	8.65	-	8.65
OMV Petrom Aviation S.A.	Airport fuel sales	99.99%	54.14	(18.89)	35.25
Petromed Solutions S.R.L.	Medical services	99.99%	3.00	-	3.00
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.96%	181.92	-	181.92
Petrom Nadlac S.R.L.	Fuel distribution	98.51%	8.23	(7.50)	0.73
Kom Munai LLP	Oil exploration and production in Kazakhstan	95.00%	36.82	(36.82)	-
Trans Gas LPG Services S.R.L.	LPG transportation related services	80.00%	4.20	(3.03)	1.17
Petrom Exploration & Production Limited	Exploration and production services	99.99%	0.39	-	0.39
Energy Production Enhancement S.R.L.	Services incidental to oil and gas production	99.99%	0.67	-	0.67
Associates					
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	25.00%	45.24	-	45.24
Franciza Petrom 2001 S.A.	Fuel distribution	40.00%	0.20	(0.20)	-
Brazi Oil & Anghelescu Prod Com S.R.L.	Fuel distribution	37.70%	1.82	(1.82)	-
Asociatia Romana pentru Relatia cu Investitorii	Public representation	20.00%	0.00	-	0.00
Other investments					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	(0.00)	-
Telescaun Tihuta S.A.	Touristic facilities	1.68%	0.01	(0.01)	-
Credit Bank	Other financial services	0.22%	0.32	(0.32)	-
Forte Asigurari - Reasigurari S.A.	Insurance services	0.09%	0.02	(0.02)	-
Total			**2,303.72**	**(477.28)**	**1,826.44**

*) Owned through Tasbulat Oil Corporation BVI as holding company.
Note: Nil amounts are shown as "-".
Where amounts are lower than RON 0.01 million, they are shown as 0.00.

During 2016 the subsidiary ICS Petrom Moldova S.A. reorganized its legal form, becoming limited liability company Petrom Moldova S.R.L. Also, OMV Petrom increased its participation in the share capital of Petrom Moldova S.R.L. by way of debt to equity swap in amount of RON 19.35 million and set up the subsidiary Energy Production Enhancement S.R.L. in which it holds 99.99% interest.

During 2016, the subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated.

As at December 31, 2016 the investment in OMV Petrom Wind Power S.R.L. in amount of RON 14.97 million is presented under assets held for sale (see note 11).

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

7. INVESTMENTS (continued)

As at December 31, 2015 the Company had investments in the following companies:

Company Name	Field of activity	Share interest percent	Cost	Valuation allowance	Net book value
Subsidiaries					
OMV Petrom Marketing S.R.L.	Fuel distribution	100.00%	1,389.86	-	1,389.86
ICS Petrom Moldova S.A.	Fuel distribution	100.00%	103.22	(103.22)	-
Tasbulat Oil Corporation LLP*	Oil exploration and production in Kazakhstan	100.00%	307.64	(307.64)	-
OMV Petrom Gas S.R.L.	Gas distribution	99.99%	8.65	-	8.65
OMV Petrom Aviation S.A.	Airport fuel sales	99.99%	54.14	(24.06)	30.08
Petromed Solutions S.R.L.	Medical services	99.99%	3.00	-	3.00
OMV Petrom Ukraine E&P GmbH	Oil & gas exploration in Ukraine	100.00%	0.04	-	0.04
OMV Petrom Ukraine Finance Services GmbH	Other services	100.00%	0.18	-	0.18
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.96%	181.92	-	181.92
Petrom Nadlac S.R.L.	Fuel distribution	98.51%	8.23	(5.62)	2.61
Kom Munai LLP	Oil exploration and production in Kazakhstan	95.00%	36.82	(36.82)	-
Trans Gas LPG Services S.R.L.	LPG transportation related services	80.00%	4.20	(3.03)	1.17
Petrom Exploration & Production Limited	Exploration and production services	99.99%	0.13	-	0.13
Associates					
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	25.00%	45.24	-	45.24
Franciza Petrom 2001 S.A.	Fuel distribution	40.00%	0.20	(0.20)	-
Brazi Oil & Anghelescu Prod Com S.R.L.	Fuel distribution	37.70%	1.82	(1.82)	-
Asociatia Romana pentru Relatia cu Investitorii	Public representation	20.00%	0.00	(0.00)	-
Other investments					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	(0.00)	-
Telescaun Tihuta S.A.	Touristic facilities	1.68%	0.01	(0.01)	-
Credit Bank	Other financial services	0.22%	0.32	(0.32)	-
Forte Asigurari - Reasigurari S.A.	Insurance services	0.09%	0.02	(0.02)	-
Total			**2,283.66**	**(482.76)**	**1,800.90**

*) Owned through Tasbulat Oil Corporation BVI as holding company.
Note: Nil amounts are shown as "-".
Where amounts are lower than RON 0.01 million, they are shown as 0.00.

As at December 31, 2015 the investment in OMV Petrom Wind Power S.R.L. in amount of RON 16.96 million was presented under assets held for sale (see note 11).

During 2015 OMV Petrom stake in fully consolidated subsidiary Petrom Exploration & Production Limited increased from 50.00% to 99.99%, and during 2016 further increased by 0.003 percentage points. Also, the investments in Petrochemicals Arges S.R.L, Fontegas Peco Mehedinti S.A. and Agribac S.A. were written off during 2015, following deregistration of these companies. The investment in Benz Oil S.A. was sold during 2015.

7. INVESTMENTS (continued)

The details about addresses, equity and profit or loss of the companies in which OMV Petrom holds an interest of at least 20%, except for Franciza Petrom 2001 S.A. and Brazi Oil & Anghelescu Prod Com S.R.L., which are in liquidation and Asociatia Romana pentru Relatia cu Investitorii, which does not have activity, are shown in the following table. Amounts are taken from the latest approved financial statements of the subsidiaries and the associate (for the year ended December 31, 2015), except for Energy Production Enhancement S.R.L. which was set up during 2016.

Company Name	Address	Currency	Equity at December 31, 2015 (in million currency)	Profit or (loss) for the year ended December 31, 2015 (in million currency)
Subsidiaries				
OMV Petrom Marketing S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	1,867.78	331.01
Petrom Moldova S.R.L.	269 Muncesti Boulevard, Chisinau, Moldova	MDL	(20.23)	5.36
Tasbulat Oil Corporation LLP*	Aktau, Microdistrict 4, Mangistau Region, Kazakhstan	KZT	(63,158.67)	(10,103.29)
OMV Petrom Gas S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	31.07	27.70
OMV Petrom Aviation S.A.	31A Aurel Vlaicu, Otopeni, Ilfov County, Romania	RON	32.63	0.96
Petromed Solutions S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	5.06	1.54
OMV Bulgaria OOD	90 Tsarigradsko Shose Blvd., Sofia 1784, Bulgaria	BGN	154.72	33.52
OMV Srbija DOO	Omladinskih brigada 90a, Belgrade, Serbia	RSD	6,676.23	1,011.68
Petrom Nadlac S.R.L.	FN Calea Aradului, Nadlac, Arad County, Romania	RON	0.34	4.21
Kom Munai LLP	Aktau, Microdistrict 4, Mangistau Region, Kazakhstan	KZT	(92,762.31)	(15,225.64)
OMV Petrom Wind Power S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	17.54	(7.11)
Trans Gas LPG Services S.R.L.	31A Aurel Vlaicu, Otopeni, Ilfov County, Romania	RON	1.47	1.24
Petrom Exploration & Production Limited	20 Hill Street, Douglas, Isle of Man	EUR	0.02	(0.02)
Energy Production Enhancement S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	Not applicable	Not applicable
Associate				
OMV Petrom Global Solutions S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	198.36	16.83

*) Owned through Tasbulat Oil Corporation BVI as holding company.

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

7. INVESTMENTS (continued)

The movements in valuation allowances for investments were as follows:

	Year 2016
January 1	**482.76**
Additions / (releases)	(9.54)
Disposals	-
Transfers from loans given to subsidiaries	4.06
December 31	**477.28**

8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

a) Trade receivables are amounting to RON 1,393.07 million as at December 31, 2016 (2015: RON 1,216.01 million). They are presented net of impairment allowances, which are detailed in 8 c) below.

b) Other financial assets (net of allowances)

	December 31, 2016	Liquidity term less than 1 year	Liquidity term over 1 year
Loans to subsidiaries (Note 27)	1,272.87	299.69	973.18
Expenditure recoverable from Romanian State	2,458.51	-	2,458.51
Derivative financial assets	-	-	-
Other financial assets	304.72	206.06	98.66
Total	**4,036.10**	**505.75**	**3,530.35**

	December 31, 2015	Liquidity term less than 1 year	Liquidity term over 1 year
Loans to subsidiaries (Note 27)	1,191.01	141.22	1,049.79
Expenditure recoverable from Romanian State	2,571.15	9.61	2,561.54
Derivative financial assets	105.16	105.16	-
Other financial assets	168.20	138.36	29.84
Total	**4,035.52**	**394.35**	**3,641.17**

Expenditure recoverable from Romanian State

As part of the privatization agreement, OMV Petrom S.A. is entitled to reimbursement by the Romanian State of part of decommissioning and environmental costs incurred to restore and clean up areas pertaining to activities prior to privatization in 2004. Consequently, OMV Petrom S.A. has recorded as receivable from the Romanian State the estimated decommissioning obligations having a net present value of RON 2,130.40 million as at December 31, 2016 (2015: RON 2,330.60 million) and the environmental liabilities in Upstream and Downstream Oil with net present value of RON 328.11 million (2015: RON 240.55 million), as these were existing prior to privatization of OMV Petrom S.A.

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

8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

In April 2016, OMV AG submitted to the Romanian State a notice of dispute regarding certain notices of claims unpaid by the Romanian State in relation to certain well decommissioning and environmental restoration obligations amounting to approximately RON 153 million. Starting with the serving of the notice of dispute, based on the Privatisation Agreement, OMV AG and the Romanian State had 180 days to amicably resolve this dispute. This deadline expired on 19 October 2016 and on 7 March 2017 OMV AG, as part in privatization agreement, initiated arbitration proceedings against the Romanian State, in accordance with the International Chamber of Commerce Rules, in Paris, France.

Other financial assets

On 14 September 2016, OMV Petrom signed a financing contract with the Romanian Ministry of Energy for the first tranches of the government grant to be received for Brazi power plant investment, recorded as other financial assets against reduction of cost of fixed assets in amount of RON 199.31 million (Notes 5 and 6). The present value of the financial asset as of December 31, 2016 was in amount of RON 198.80 million.

c) Valuation allowances

The movements in valuation allowances for loans to subsidiaries were as follows:

	Year 2016
January 1, 2016	**4.06**
Additions/ (releases)	-
Transfers to investments	(4.06)
December 31, 2016	**-**

The movements in valuation allowances for trade and for other financial assets were as follows:

	Valuation allowance for:		
	Trade receivables	**Other financial assets**	**Total**
January 1, 2016	**85.81**	**489.12**	**574.93**
Additions/ (releases)	(0.15)	285.08	284.93
Used	-	-	-
December 31, 2016	**85.66**	**774.20**	**859.86**

Additions related to valuation allowance for other financial assets refer mainly to reassessment of receivables considering the uncertainty regarding the expenditure recoverable from Romanian State.

The gross value of the impaired trade receivables as at December 31, 2016 is of RON 85.93 million (2015: RON 86.12 million) and the gross value of other financial assets impaired is RON 918.45 million (2015: RON 506.95 million).

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

8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

d) The aging profile of receivables and other financial assets which were past due but not impaired was as follows:

Trade receivables	December 31, 2016	December 31, 2015
Up to 60 days overdue	100.48	63.85
61 to 120 days overdue	-	-
More than 120 days overdue	0.67	0.66
Total	**101.15**	**64.51**

Other financial assets	December 31, 2016	December 31, 2015
Up to 60 days overdue	0.71	1.81
61 to 120 days overdue	-	-
More than 120 days overdue	3.73	-
Total	**4.44**	**1.81**

9. OTHER ASSETS

The carrying value of other assets was as follows:

		Liquidity term	
	December 31, 2016	less than 1 year	over 1 year
Receivable from taxes	79.16	27.50	51.66
Prepaid expenses and deferred charges	68.53	56.57	11.96
Advance payments on fixed assets	28.16	28.16	-
Rental and lease prepayments	27.70	27.70	-
Other assets	89.37	89.37	-
Total	**292.92**	**229.30**	**63.62**

		Liquidity term	
	December 31, 2015	less than 1 year	over 1 year
Receivable from taxes	76.46	27.08	49.38
Prepaid expenses and deferred charges	101.85	84.31	17.54
Advance payments on fixed assets	232.73	232.73	-
Rental and lease prepayments	29.79	29.79	-
Other assets	78.34	78.34	-
Total	**519.17**	**452.25**	**66.92**

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

10. INVENTORIES

	December 31, 2016	December 31, 2015
Crude oil	357.82	462.79
Natural gas	111.61	84.67
Other materials	221.63	213.64
Work in progress	132.03	84.07
Finished products	685.29	711.75
Total	**1,508.38**	**1,556.92**

The cost of materials and goods consumed during 2016 (whether used in production or re-sold) is RON 3,807.51 million (2015: RON 3,107.42 million).

As at December 31, 2016 and 2015 there were no inventories pledged as security for liabilities.

11. ASSETS HELD FOR SALE

	December 31, 2016	December 31, 2015
Plant and equipment	160.44	-
Investments (see Note 7)	14.97	16.96
Other financial assets (see Notes 14 and 27)	84.93	91.63
Assets held for sale	**260.34**	**108.59**
Provisions (Note 13)	(125.67)	-
Liabilities associated with assets held for sale	**(125.67)**	**-**

As at December 31, 2016, the assets and liabilities held for sale refer 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 Dorobantu wind-park, in line with the Company's strategy to focus on core business. As of December 31, 2016, management expects that this transaction will be closed within the following twelve months. Fair value less costs of disposal was estimated at RON 99.90 million, triggering increases in valuation allowances for investment in and loan granted to OMV Petrom Wind Power S.R.L. of RON 13.24 million for the year ended December 31, 2016.

As at December 31, 2015, the assets held for sale referred to Downstream Gas segment in relation to the envisaged sale of the stake in and the assignment of loans granted to the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park. Fair value less costs of disposal were estimated at RON 108.59 million, triggering increases in valuation allowances for investment in and loan granted to OMV Petrom Wind Power S.R.L. of RON 81.52 million as of December 31, 2015. Other financial assets include the net balances of cash pooling and loans granted to OMV Petrom Wind Power S.R.L. (for details see Notes 14 and 27).

12. STOCKHOLDERS' EQUITY

Share capital

The share capital of OMV Petrom S.A. consists of 56,644,108,335 fully paid shares as at December 31, 2016 and 2015 with a total nominal value of RON 5,664.41 million.

Reserves

Reserves include retained earnings, other non-distributable reserves (legal and geological quota facility reserves, other reserves from fiscal facilities), other reserve related to land not yet included in share capital, cash flow hedging reserves and treasury shares.

On March 23, 2017, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.015 per share. The dividend proposal is subject to further approval by the Ordinary General Meeting of Shareholders, on April 25, 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.

Other reserves

Geological quota is amounting to RON 5,062.84 million (2015: same amount). Until December 31, 2006 OMV Petrom S.A. benefited from geological quota facility whereby it could charge up to 35% of the market value of the volume of oil and gas extracted during the year. This facility was recognized directly in reserves. This quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

Legal reserves are amounting to RON 1,132.88 million (2015: same amount). OMV Petrom S.A. sets its legal reserve in accordance with the provisions of the Romanian Companies Law, which requires that minimum 5% of the annual accounting profit before tax is transferred to "legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company.

Other reserves from fiscal facilities are amounting to RON 314.98 million (2015: RON 248.29 million). The amount of RON 66.69 million was allocated to other reserves in the year 2016 representing fiscal facilities from reinvested profit.

Other reserves include also land for which land ownership certificates were obtained, but was not yet included in share capital.

Cash flow hedging reserves

In order to protect the Company's cash flows against further potential downturns of the crude oil price, OMV Petrom entered, in April 2015, into hedging arrangements (Zero Cost Collar options) for a volume of 15,000 bbl/d of crude oil, with a protection floor level of USD 55/bbl, for the third quarter of 2015 to the second quarter of 2016 period. These financial instruments were accounted as cash flow hedge.

In August 2015 the Company has decided to monetize in advance the outstanding hedges for the fourth quarter of 2015 to the second quarter of 2016, by contracting offsetting positions. The hedge accounting for the options contracted in April 2015 with maturities in fourth quarter of 2015 to the second quarter of 2016 period was therefore discontinued in August 2015 and the effective part reflected in other comprehensive income as at that time remained separately in equity until the forecast transactions occurred. The remaining cumulative gain recognized in other comprehensive income for the options with maturities in first two quarters of 2016, net of tax, is in amount of RON 11.94 million as at December 31, 2015 and was recycled in the income statement during 2016, when maturities were reached.

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

13. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2016	**231.88**	**8,161.65**	**2,796.74**	**11,190.27**
thereof short-term	-	363.50	515.87	879.37
thereof long-term	231.88	7,798.15	2,280.87	10,310.90
Liabilities associated with assets held for sale	-	(125.67)	-	(125.67)
Used	(9.69)	(236.99)	(162.09)	(408.77)
Allocations/ (releases)	(4.95)	313.85	221.08	529.98
December 31, 2016	**217.24**	**8,112.84**	**2,855.73**	**11,185.81**
thereof short-term	-	347.92	322.76	670.68
thereof long-term	217.24	7,764.92	2,532.97	10,515.13

Provisions for pensions and similar obligations

Employees of the Company are entitled to receive severance payments upon termination of employment or on reaching normal retirement age. The entitlements depend on years of service and final compensation levels. Provisions have been set up based on actuarial calculations performed by qualified actuaries using the following parameters: a discount rate of 3.23% (2015: 3.69%), an inflation rate of 2.40% (2015: 2.10%) and an estimated average yearly salary increase of 3.30% (2015: 4.00%).

Provisions for decommissioning and restoration

Changes in provisions for decommissioning and restoration are shown in the table below. In the event of subsequent changes in estimated restoration costs only the effect of the change in present value is recognized in the period concerned. If the value increases, the increase is depreciated over the remaining useful life of the asset, and if it decreases, the decrease is deducted from capitalized asset value. The interest rate applied for calculating of decommissioning and restoration costs is 0.83% (2015: 1.59%).

Revisions in estimates for decommissioning and restoration provisions arise from the yearly reassessment of the cost of work done, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration, and revision of estimated interest rates.

In relation to part of the Company's decommissioning and restoration obligations, there is a corresponding receivable from the Romanian State, as presented in Note 8.

Details on the Decommissioning and restoration obligations are as follows:

	2016	2015
Balance as at January 1	**8,161.65**	**7,416.88**
Revisions in estimates	24.27	725.52
Unwinding effect	289.58	281.19
Used in current year	(236.99)	(261.94)
Liabilities associated with assets held for sale	(125.67)	-
Balance as at December 31	**8,112.84**	**8,161.65**

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

13. PROVISIONS (continued)

The revisions in estimates impact either the assets subject to decommissioning or the related receivable from State. The unwinding effect is included in the income statement under the interest expenses line (Note 22) net of the unwinding effect on the related receivable from State. The effect of changes in discount rate or timing of the receivables from State (which are additional to the changes in discount rate or timing of the decommissioning costs) is included in the income statement under interest expenses or interest income.

Impact from revision in estimates in 2015 was generated mainly by higher estimated decommissioning costs for onshore wells.

Other provisions were as follows:

December 31, 2016	Total	less than 1 year	over 1 year
Environmental provision	376.99	64.66	312.33
Other personnel provisions	167.10	164.70	2.40
Provisions for litigations	315.34	13.43	301.91
Other	1,996.30	79.97	1,916.33
Total	**2,855.73**	**322.76**	**2,532.97**

December 31, 2015	Total	less than 1 year	over 1 year
Environmental provision	212.86	99.36	113.50
Other personnel provisions	163.23	160.77	2.46
Provisions for litigations	514.40	139.62	374.78
Other	1,906.25	116.12	1,790.13
Total	**2,796.74**	**515.87**	**2,280.87**

Environmental provisions

The environmental provisions were estimated by the management based on the list of environment related projects that must be completed by the Company. Provisions recorded as at December 31, 2016 and 2015 represent the best estimate of the Company's experts for environmental matters. Environmental provisions are computed using the same interest rates as for the decommissioning and restoration provisions.

The Company recorded certain environmental liabilities against receivable from the Romanian State in Upstream and Downstream Oil, as these obligations existed prior to privatization (Note 8b).

During 2016, OMV Petrom S.A. set-up additional environmental provision for decontamination of land plots pertaining to certain former Downstream Oil storage facilities.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by the Company further to approved restructuring plan that has been communicated to those affected by it.

Provisions for litigations

The Company monitors all litigations instigated against it and assesses the likelihood of losses and the related costs using in house lawyers and external legal advisors. The Company has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash outflows.
Decreases in provisions for litigations derive from favorable outcomes of cases during the period.

13. PROVISIONS (continued)

Other provisions

As at December 31, 2016, other long-term provisions were related to the exposure in relation to the 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, amounting to RON 1,916.33 million (2015: RON 1,790.13 million).

Emissions certificates

Directive 2003/87/EC of the European Parliament and of the European Council established a greenhouse gas emissions trading scheme, requiring member states to draw up national plans to allocate emissions certificates. Romania was admitted to the scheme in January 2007, when it joined the EU.

Under this scheme OMV Petrom S.A. is entitled to an allocation of 2,277,940 emission certificates for year 2016 (2015: 2,281,635 emission certificates). During 2016 the Company received 2,608,152 emission certificates, out of which 1,651,062 emission certificates representing the 2015 entitlement according to article 10c) of the Directive and 957,090 emission certificates from 2016 entitlement according to article 10a) of the Directive.

During 2016 the Company had net sales of 1,480,706 emissions certificates (2015: 913,567 emissions certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2016, the Company was not short of certificates.

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

14. INTEREST-BEARING DEBTS

As at December 31, 2016 and December 31, 2015 OMV Petrom S.A. had the following loans:

Interest-bearing debts short-term

Lender	**December 31, 2016**	**December 31, 2015**
European Bank for Reconstruction and Development (a)	96.27	95.92
European Investment Bank (b)	86.50	86.18
Cash pooling (c)	546.81	363.39
Accrued interest	5.42	7.12
Prepayments in relation with loan amounts drawn	(1.46)	(1.46)
Total interest-bearing debts short-term	**733.54**	**551.15**

Interest-bearing debts long-term

Lender	**December 31, 2016**	**December 31, 2015**
European Bank for Reconstruction and Development (a)	282.46	377.34
European Investment Bank (b)	447.62	532.17
Prepayments in relation with loan amounts drawn	(4.39)	(5.85)
Total interest-bearing debts long-term	**725.69**	**903.66**
thereof maturing after more than 1 year but not later than 5 years	624.06	716.27
thereof maturing after 5 years	101.63	187.39
Total interest-bearing debts	**1,459.23**	**1,454.81**

(a) For the construction of Brazi Power Plant OMV Petrom S.A. concluded an unsecured corporate loan agreement with European Bank for Reconstruction and Development, for a maximum amount of EUR 200.00 million. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The outstanding amount as at December 31, 2016 was RON 378.73 million (equivalent of EUR 83.40 million) (2015: RON 473.26 million, equivalent of EUR 104.60 million).

(b) For the construction of the Brazi Power Plant, OMV Petrom S.A. also concluded an unsecured loan agreement for an amount of EUR 200.00 million with European Investment Bank. The agreement was signed on May 8, 2009 and the final maturity date is June 15, 2023. The outstanding amount as at December 31, 2016 was RON 534.12 million (equivalent of EUR 117.62 million) (2015: RON 618.35 million, equivalent of EUR 136.67 million).

(c) Cash pooling agreements with maturity on April 22, 2017, renewable each year, are signed between OMV Petrom S.A. and the following companies:

(i) OMV Petrom Marketing S.R.L. for an amount up to RON 1,500.00 million. The balance as at December 31, 2016 amounts to RON 421.77 million (December 31, 2015: RON 214.32 million).

(ii) OMV Petrom Global Solutions S.R.L for an amount up to RON 180.00 million (2015: RON 155.00 million). The balance as at December 31, 2016 amounts to RON 95.21 million (December 31, 2015: RON 127.96 million).

(iii) OMV Petrom Gas S.R.L. for an amount up to RON 650.00 million. As at December 31, 2016 OMV Petrom had a receivable balance in relation to the cash pooling contract with OMV Petrom Gas S.R.L. in amount of RON 298.10 million (December 31, 2015: receivable of RON 139.81 million).

14. INTEREST-BEARING DEBTS (continued)

(iv) Petromed Solutions S.R.L. for an amount up to RON 15.00 million. The balance as at December 31, 2016 amounts to RON 7.86 million (December 31, 2015: RON 6.88 million).

(v) OMV Petrom Aviation S.A. for an amount up to RON 25.00 million (2015: RON 15 million). The balance as at December 31, 2016 amounts to RON 21.97 million (December 31, 2015: RON 14.23 million).

(vi) Energy Production Enhancement S.R.L. for an amount up to RON 15.00 million. As at December 31, 2016, OMV Petrom had no outstanding balance in relation to the cash pooling contract concluded with Energy Production Enhancement S.R.L.

(vii) As at December 31, 2015 OMV Petrom had a receivable balance in relation to the cash pooling contract with OMV Petrom Wind Power S.R.L. in amount of RON 16.40 million which was presented under assets held for sale (see note 11). The cash pooling contract with OMV Petrom Wind Power S.R.L. expired on April 23, 2016 and it was not renewed.

The Company has several credit facilities signed as at December 31, 2016 as follows:

(d) An unsecured credit facility granted by Raiffeisen Bank S.A. up to EUR 55.00 million (2015: EUR 105.00 million) consisting in two subfacilities: subfacility A with maturity date prolonged to December 31, 2017 (for an amount of EUR 35.00 million) and subfacility B with maturity date prolonged to December 15, 2019 (for an amount of EUR 20.00 million). Subfacility A can be used only in RON and only by OMV Petrom S.A. as overdraft credit line. Subfacility B can be used in EUR, USD or RON by OMV Petrom S.A., OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. (up to the limit of EUR 20.00 million); OMV Petrom Aviation S.A (up to the maximum limit of EUR 10.00 million) only for the issuance of letters of credit and/or issuance of letters of bank guarantee. The cash portion of the credit facility was not used as at December 31, 2016 and 2015.

(e) An unsecured Banks Consortium revolving facility amounting to EUR 1,000.00 million was contracted on May 20, 2015 with 5 years maturity and with the possibility of extension for another 2 years. First extension by one year was done in March 2016, the current maturity being May 20, 2021. The Banks Consortium includes BRD - Groupe Société Générale S.A.; UniCredit Bank Austria AG; UniCredit Tiriac Bank S.A. (Romania); ING Bank N.V. Amsterdam, Bucharest Branch; Erste Group Bank AG; Banca Comerciala Romana S.A.; Intesa Sanpaolo S.p.A., Frankfurt Branch; Banca Comerciala Intesa Sanpaolo Romania S.A. ; Mizuho Bank Europe N.V. (formerly known as Mizuho Bank Nederland N.V. and Mizuho Corporate Bank Nederland N.V.); Raiffeisen Bank International AG; Raiffeisen Bank S.A.; BNP Paribas Fortis S.A./N.V. Bruxelles- Bucharest Branch; Commerzbank Aktiengesellschaft, Filiale Luxemburg; MUFG Bank (Europe) N.V. (formerly known as Bank of Tokyo- Mitsubishi UFJ (Holland) N.V.); Citibank Europe Plc; Citibank Europe Plc, Dublin-Romania Branch; Deutsche Bank Luxembourg S.A.; CA Indosuez Wealth (Europe) (former Crédit Agricole Luxembourg S.A.); Barclays Bank Plc; Garanti Bank S.A.; OTP Bank România S.A.; KDB Bank Europe Ltd. There are no drawings from this facility as at December 31, 2016 and 2015.

(f) An unsecured facility contracted by OMV Petrom S.A. from ING Bank N.V., that can be used in USD, RON or EUR, up to the maximum amount of EUR 70.00 million (equivalent of RON 317.88 million), for issuance of letters of bank guarantee and as overdraft for working capital financing. The maturity for letters of bank guarantee was prolonged until November 20, 2020 and for overdraft until November 22, 2017. No drawings under the overdraft were made as at December 31, 2016 and 2015.

(g) An uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. with maximum limit of EUR 60.00 million (equivalent of RON 272.47 million) (2015: EUR 120.00 million, equivalent of RON 542.94 million) that can be used in RON, with maturity date prolonged until April 30, 2017. The facility is designated to finance OMV Petrom's current activity and for issuance of letters of guarantee and letters of credit. No drawings under the facility were made as at December 31, 2016 and 2015.

14. INTEREST-BEARING DEBTS (continued)

(h) A committed and unsecured credit facility contracted by OMV Petrom S.A. from Banca Comerciala Romana S.A., that can be used in USD, EUR or RON, up to a maximum amount of EUR 200.00 million (equivalent of RON 908.22 million), for issuance of letters of bank guarantee and similar and as overdraft for working capital financing. The maturity for letters of bank guarantee and similar is January 14, 2018 and for overdraft the maturity was prolonged from January 14, 2017 to January 11, 2019. No drawings for overdraft purposes were made as at December 31, 2016 and 2015.

OMV Petrom S.A. has signed also facilities with several banks for issuing letters of guarantee, as follows:

(i) An unsecured facility agreement was signed by OMV Petrom S.A. with BNP Paribas Fortis S.A/N.V– Bucharest branch – for up to EUR 30.00 million (equivalent of RON 136.23 million), to be utilized only for issuance of letters of bank guarantee and letters of credit, with maturity date prolonged to March 27, 2017.

(j) An unsecured credit facility up to EUR 30.00 million (equivalent of RON 136.23 million) obtained by OMV Petrom S.A. from BRD – Groupe Société Générale S.A., to be utilized only for issuance of letters of credit, endorsement of promissory notes and issuance of letters of bank guarantee. The validity period for the credit facility was prolonged to April 30, 2017.

(k) An unsecured credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 113.53 million), to be utilized only for issuance of letters of bank guarantee, with maturity extended until March 31, 2020.

As at December 31, 2016, OMV Petrom S.A. is in compliance with all financial covenants stipulated by the loan agreements.

Please refer to Note 32 for details regarding interest rates risk of interest-bearing debts.

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

15. OTHER FINANCIAL LIABILITIES

	December 31, 2016	less than 1 year	over 1 year
Finance lease liabilities	194.06	45.38	148.68
Financial liabilities in connection with joint operations	3.27	3.27	-
Derivative financial liabilities	9.41	9.41	-
Other financial liabilities	128.65	119.06	9.59
Total	**335.39**	**177.12**	**158.27**

	December 31, 2015	less than 1 year	over 1 year
Finance lease liabilities	281.64	44.80	236.84
Financial liabilities in connection with joint operations	227.34	227.34	-
Derivative financial liabilities	101.97	101.97	-
Other financial liabilities	151.53	143.19	8.34
Total	**762.48**	**517.30**	**245.18**

Finance lease liabilities

As of December 31, 2016, the Company had finance leases mainly in relation with equipment for production of electricity (Upstream segment), and a hydrogen and medium pressure steam production plant for Petrobrazi Refinery (Downstream Oil segment).

The finance lease contract regarding the pipe yards facilities for tubing reconditioning in Upstream, concluded in the year 2013 for a 15 year period, was terminated earlier, during 2016, and, as a consequence, OMV Petrom made a down payment to the lessor amounting to RON 60.26 million (equivalent of EUR 13.54 million).

For the hydrogen and medium pressure steam production plant (acquired in 2013) the lease period is 15 years and the total future minimum lease payments amounts to RON 146.97 million (2015: RON 158.68 million).

A breakdown of present value of finance lease liabilities is presented below:

	December 31, 2016	December 31, 2015
Obligations under finance leases		
Amounts due within 1 year	52.71	63.74
Amounts due after more than 1 year but not later than 5 years	91.93	148.19
Amounts due after 5 years	90.40	156.75
Total lease obligations	**235.04**	**368.68**
Less future finance charges on finance leases	(40.98)	(87.04)
Present value of finance lease liabilities	**194.06**	**281.64**
Analyzed as follows:		
Maturing within 1 year	45.38	44.80
Maturing after more than 1 year but not later than 5 years	73.54	110.61
Maturing after 5 years	75.14	126.23

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

15. OTHER FINANCIAL LIABILITIES (continued)

Maturity profile of financial liabilities

The tables below summarize the maturity profile of the Company´s financial liabilities based on contractual undiscounted cash flows (i.e. also including future finance charges):

December 31, 2016	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	749.10	655.45	102.98	**1,507.53**
Trade payables	1,689.84	-	-	**1,689.84**
Other financial liabilities	184.46	101.20	90.71	**376.37**
Total	**2,623.40**	**756.65**	**193.69**	**3,573.74**

December 31, 2015	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	572.39	774.90	191.42	**1,538.71**
Trade payables	1,817.57	-	-	**1,817.57**
Other financial liabilities	536.24	156.53	156.75	**849.52**
Total	**2,926.20**	**931.43**	**348.17**	**4,205.80**

16. OTHER LIABILITIES

	December 31, 2016	less than 1 year	over 1 year
Tax liabilities	365.75	365.75	-
Social security	43.01	43.01	-
Deferred income	34.42	34.42	-
Other liabilities	38.18	38.18	-
Total	**481.36**	**481.36**	**-**

	December 31, 2015	less than 1 year	over 1 year
Tax liabilities	423.90	423.90	-
Social security	44.80	44.80	-
Deferred income	11.65	11.65	-
Other liabilities	31.94	31.94	-
Total	**512.29**	**512.29**	**-**

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

17. DEFERRED TAX

December 31, 2016	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	216.10	-	216.10	-
Financial assets	99.71	-	99.71	-
Inventories	19.72	-	19.72	-
Receivables and other assets	63.06	(41.62)	21.44	-
Untaxed reserves	-	-	-	1.25
Provisions for pensions and severance payments	39.57	-	39.57	4.81
Other provisions	1,081.95	-	1,081.95	-
Liabilities	5.73	-	5.73	-
Total	**1,525.84**	**(41.62)**	**1,484.22**	**6.06**
Netting (same tax jurisdiction/country)			(6.06)	(6.06)
Deferred tax, net			**1,478.16**	**-**

December 31, 2015	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	235.96	-	235.96	-
Financial assets	94.50	-	94.50	2.27
Inventories	31.35	-	31.35	-
Receivables and other assets	63.49	(41.83)	21.66	-
Untaxed reserves	-	-	-	5.56
Provisions for pensions and severance payments	39.36	-	39.36	2.26
Other provisions	1,076.21	-	1,076.21	-
Liabilities	4.03	-	4.03	-
Total	**1,544.90**	**(41.83)**	**1,503.07**	**10.09**
Netting (same tax jurisdiction/country)			(10.09)	(10.09)
Deferred tax, net			**1,492.98**	**-**

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

18. OTHER OPERATING INCOME

	December 31, 2016	December 31, 2015
Exchange gains from operating activities	74.42	83.52
Gains on disposal of non-current assets	23.64	22.00
Write-up tangible and intangible assets	5.34	13.25
Other operating income	303.60	292.99
Total	**407.00**	**411.76**

19. OTHER OPERATING EXPENSES

	December 31, 2016	December 31, 2015
Exchange losses from operating activities	64.22	152.05
Losses on disposal of non-current assets	12.41	16.04
Net income from provisions for litigations	(78.17)	(61.63)
Other operating expenses	573.60	367.46
Total	**572.06**	**473.92**

Other operating expenses include an amount of RON 90.84 million (2015: RON 72.14 million) representing restructuring expenses.

The increase in "Other operating expenses" line refers mainly to the valuation allowance for other financial assets considering the uncertainty regarding the expenditure recoverable from Romanian State (Note 8c)).

20. COST INFORMATION

For the years ended December 31, 2016 and December 31, 2015 the income statement includes the following personnel expenses:

	December 31, 2016	December 31, 2015
Wages and salaries	1,661.00	1,892.88
Other personnel expenses	133.37	105.47
Total personnel expenses	**1,794.37**	**1,998.35**

Included in the above wages and salaries is the amount of RON 223.53 million, representing Company's contribution to state pension plan for the year ended December 31, 2016 (2015: RON 251.74 million).

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

20. COST INFORMATION (continued)

Depreciation, amortization and impairment losses net of write-ups of intangible assets and property, plant and equipment consisted of:

	December 31, 2016	December 31, 2015
Depreciation and amortization	2,805.88	2,833.05
Net impairment intangible assets and property, plant and equipment	442.60	3,295.28
Total depreciation, amortization and net impairment	**3,248.48**	**6,128.33**

Net impairment losses booked during the year ended December 31, 2016 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 440.46 million (including mainly impairments for replaced assets, unsuccessful workovers and exploration assets) and in other segments amounting to RON 2.14 million.

Net impairment losses booked during the year ended December 31, 2015 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 3,279.66 million (including mainly impairments for Upstream production assets, impairments for replaced assets, unsuccessful workovers and exploration wells), to Downstream Oil amounting to RON 11.87 million, to Downstream Gas amounting to RON 3.49 million and in Corporate & Other segment amounting to RON 0.26 million.

In the income statement the impairment losses are included under cost of sales in amount of RON 279.56 million (2015: RON 2,899.25 million), under exploration expenses in amount of RON 165.85 million (2015: RON 408.40 million) and under administrative expenses in amount of RON 2.53 million (2015: RON 0.26 million). These impairment losses are netted off with write-ups amounting to RON 5.34 million (2015: RON 13.25 million). During 2015, the amount of RON 0.26 million representing impairment losses was presented under selling expenses.

Rental expenses included in the income statement for the year ended December 31, 2016 are in amount of RON 146.56 million (2015: RON 134.50 million).

21. INCOME FROM INVESTMENTS

	December 31, 2016	December 31, 2015
Dividends from subsidiaries	388.25	583.86
Dividends from associated companies	3.95	1.63
Total	**392.20**	**585.49**

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

22. INTEREST INCOME AND INTEREST EXPENSES

	December 31, 2016	December 31, 2015
Interest income		
Interest income related to subsidiaries and associates	40.21	40.63
Interest income from receivables and other	123.34	182.27
Interest income from short term bank deposits	3.23	2.65
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivables	33.23	43.00
Total interest income	**200.01**	**268.55**
Interest expenses		
Interest expenses	(45.75)	(60.16)
Unwinding expenses for retirement benefits provision	(8.55)	(10.27)
Unwinding expenses for decommissioning provision net of the unwinding income for related State receivables	(220.30)	(213.87)
Unwinding and discounting for other items and negative effect of changes in discount rate and timing for State receivables	(50.82)	(116.45)
Total interest expenses	**(325.42)**	**(400.75)**
Net interest expenses	**(125.41)**	**(132.20)**

23. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2016	December 31, 2015
Financial income		
Exchange gains from financing activities	56.39	138.06
Gains from investments and financial assets	30.72	1.78
Total financial income	**87.11**	**139.84**
Financial expenses		
Exchange losses from financing activities	(27.52)	(47.83)
Losses from investments and financial assets	(15.79)	(175.15)
Other financial expenses	(148.64)	(471.80)
Total financial expenses	**(191.95)**	**(694.78)**
Other financial income and expenses	**(104.84)**	**(554.94)**

Other financial expenses include an amount of RON 126.19 million representing additional provision for risk and charges in relation to the parent company guarantees issued by OMV Petrom S.A. 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 (Note 13) (2015: RON 445.58 million).

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

24. TAXES ON INCOME

	December 31, 2016	December 31, 2015
Taxes on income - current year	(129.32)	(398.84)
Deferred tax revenue/ (expense)	(14.54)	465.03
Total taxes on income – revenue/ (expense)	**(143.86)**	**66.19**

The reconciliation of deferred taxes is as follows:

	2016	2015
Deferred tax asset at January 1	1,492.98	1,035.69
Deferred tax asset at December 31	1,478.16	1,492.98
Changes in deferred taxes	**(14.82)**	**457.29**
thereof deferred taxes (expenses)/revenues in Other Comprehensive Income	(0.28)	(7.74)
thereof deferred taxes (expenses)/ revenues in the Income Statement	(14.54)	465.03

Reconciliation

Profit/ (loss) before taxation	**1,051.71**	**(696.83)**
Income tax rate applicable	16.00%	16.00%
Profit tax revenue/ (expense) based on income tax rate	**(168.27)**	**111.49**
Tax credit	14.90	17.53
Change in valuation allowance	0.21	(0.48)
Tax effect of items that are non-deductible/ non-taxable	9.30	(62.35)
Profits tax revenues/ (expenses) in the Income Statement	**(143.86)**	**66.19**

Items that were non-deductible/ non-taxable in 2015 comprised mainly the increase in the provision for risk and charges in relation to the parent company guarantee issued by OMV Petrom S.A. 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.

25. SEGMENT INFORMATION

OMV Petrom S.A. is organized into three operating business segments: Upstream (former Exploration and Production (E&P)), Downstream Gas (former Gas and Power (G&P)) and Downstream Oil (former Refining and Marketing (R&M)) while management, financing activities and certain service functions are concentrated in the Corporate & Other segment.

OMV Petrom's involvement in the oil and gas industry, by its nature, exposes it to certain risks. These include political stability, economic conditions, changes in legislation or fiscal regimes, as well as other operating risks inherent in the industry such as the high volatility of crude prices and of the US dollar. A variety of measures are taken to manage these risks.

Apart from the integration of OMV Petrom's upstream and downstream operations, and the policy of maintaining a balanced portfolio of assets in the Upstream segment, the main instruments used are operational in nature. There is a company-wide environmental risk reporting system in operation, designed to identify existing and potential obligations and to enable timely action to be taken. Insurance and taxation are also dealt with on a company-wide basis. Regular surveys are undertaken across OMV Petrom to identify current litigation and pending court and administrative proceedings.

Business decisions of fundamental importance are made by the Executive Board of OMV Petrom S.A. The business segments are independently managed, as each represents a strategic unit with different products and markets.

Upstream activities are engaged in Romania and main outcome products are crude oil and natural gas.

Gas business unit, part of Downstream Gas segment, has the objective to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization. Business division **Power,** part of Downstream Gas segment, extends the gas value chain into a gas-fired power plant.

Downstream Oil operates Petrobrazi refinery and produces and delivers gasoline, diesel and other petroleum products to its wholesale customers.

The key figure of operating performance for OMV Petrom S.A. is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

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

25. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2016	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Total
Intersegment sales	6,866.11	222.29	259.83	45.04	(82.58)	143.43	**7,231.83**	(7,231.83)	**-**
Sales with third parties	83.86	12,468.39	3,873.41	8,594.98	-	41.61	**12,593.86**	-	**12,593.86**
Total sales	**6,949.97**	**12,690.68**	**4,133.24**	**8,640.02**	**(82.58)**	**185.04**	**19,825.69**	(7,231.83)	**12,593.86**
EBIT	**420.11**	**684.49**	**(80.41)**	**764.90**	**-**	**(73.29)**	**1,031.31**	(141.55)	**889.76**
Total assets **	23,214.95	5,017.66	1,471.74	3,545.92	-	480.77	**28,713.38**	-	**28,713.38**
Additions in PPE/IA ***	2,507.52	136.44	(186.25)	322.69	-	3.13	**2,647.09**	-	**2,647.09**
Depreciation and amortization	2,202.45	580.34	118.54	461.80	-	23.10	**2,805.89**	-	**2,805.89**
Impairment losses (net)	440.46	(0.39)	(0.74)	0.35	-	2.53	**442.60**	-	**442.60**

Information about geographical areas:

December 31, 2016	Romania	Rest of CEE	Rest of world	Total
Sales with third parties****	12,286.84	292.62	14.40	**12,593.86**
Total assets**	28,713.38	-	-	**28,713.38**
Additions in PPE/IA	2,647.09	-	-	**2,647.09**

*) Sales Dowstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas
**) Intangible assets (IA) and property, plant and equipment (PPE)
***) Additions in Downstream Gas were reduced by the amount of RON 199.31 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9).
****) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

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

25. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2015	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Total
Intersegment sales	8,295.21	260.86	301.94	53.77	(94.85)	169.10	**8,725.17**	(8,725.17)	**-**
Sales with third parties	224.79	13,691.80	4,002.27	9,689.53	-	35.90	**13,952.49**	-	**13,952.49**
Total sales	**8,520.00**	**13,952.66**	**4,304.21**	**9,743.30**	**(94.85)**	**205.00**	**22,677.66**	(8,725.17)	**13,952.49**
EBIT	**(1,510.48)**	**674.12**	**(130.09)**	**804.21**	**-**	**(76.11)**	**(912.47)**	317.29	**(595.18)**
Total assets **	23,517.68	5,473.76	1,776.54	3,697.22	-	506.67	**29,498.11**	-	**29,498.11**
Additions in PPE/IA	4,157.92	294.31	9.32	284.99	-	7.90	**4,460.13**	-	**4,460.13**
Depreciation and amortization	2,258.30	551.06	120.88	430.18	-	23.69	**2,833.05**	-	**2,833.05**
Impairment losses (net)	3,279.66	15.36	3.49	11.87	-	0.26	**3,295.28**	-	**3,295.28**

Information about geographical areas:

December 31, 2015	Romania	Rest of CEE	Rest of world	Total
Sales with third parties***	13,500.82	428.16	23.51	**13,952.49**
Total assets**	29,498.11	-	-	**29,498.11**
Additions in PPE/IA	4,460.13	-	-	**4,460.13**

*) Sales Dowstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas
**) Intangible assets (IA) and property, plant and equipment (PPE)
***) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

26. AVERAGE NUMBER OF EMPLOYEES

The number of employees calculated as the average of the month's end number of employees during the year is 14,380 for 2016 and 15,581 for 2015.

27. RELATED PARTIES

The terms of the outstanding balances receivable from/payable to related parties are typically 0 to 90 days. The balances are unsecured and will be settled in cash.

The balances with related parties comprise also loans receivable and payable, included in the Statement of financial position under "Other financial assets" (see also Note 8) and "Interest-bearing debts" respectively (refer to Note 14c)).

Dividends receivable are not included in the below balances and revenues.

Please refer to Note 30 for details on the guarantees given or paid to related parties.

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

27. RELATED PARTIES (continued)

During 2016, the Company had the following transactions with related parties (including balances as of December 31, 2016):

	Nature of transaction	Purchases	Balances Payable
OMV PETROM S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	40.81	41.22
OMV Petrom Gas S.R.L.	Acquisition of gas and other	111.34	18.95
OMV Petrom Wind Power SRL	Acquisition of electricity and green certificates	20.74	3.29
Petromed Solutions S.R.L.	Medical services	21.45	0.47
OMV Petrom Aviation S.A.	Airport sales services	19.18	1.39
OMV Bulgaria OOD	Delegation of personnel and other	0.54	0.35
Kom Munai LLP	Various services	0.14	-
OMV Srbija d.o.o.	Various services	0.19	0.14
Petrom Moldova S.R.L	Various services	0.08	0.01
Total OMV Petrom S.A. subsidiaries		**214.47**	**65.82**
Other related parties			
OMV Petrom Global Solutions SRL	Financial, IT and other services	371.25	75.31
OMV Supply & Trading Limited	Acquisition of petroleum products	399.26	28.29
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	90.89	28.10
OMV Exploration & Production GmbH	Delegation of personnel and other	52.01	13.16
OMV Aktiengesellschaft	Delegation of personnel and other	33.92	20.71
OMV Trading GmbH	Services and other	7.39	2.87
OMV International Oil & Gas GmbH	Delegation of personnel and other	1.45	0.82
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.05	0.88
OMV Gas & Power GmbH	Delegation of personnel and other	0.17	0.63
OMV Austria Exploration & Production GmbH	Various services	0.70	-
Total other companies		**958.09**	**170.77**
Total		**1,172.56**	**236.59**

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

27. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Receivables
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	6,558.95	697.38
OMV Petrom Gas S.R.L.	Sales of gas	2,780.41	306.99
OMV Bulgaria OOD	Sales of petroleum products	361.90	45.82
Petrom Moldova S.R.L	Sales of petroleum products	135.14	0.31
OMV Srbjia DOO	Sales of petroleum products	82.29	13.05
Tasbulat Oil Corporation	Delegation of personnel and other	7.90	9.94
Kom Munai LLP	Delegation of personnel and other	6.63	0.96
Petromed Solutions S.R.L.	Financial, IT and other services	2.01	0.16
OMV Petrom Aviation S.A.	IT and other services	0.33	0.05
OMV Petrom Wind Power SRL	Delegation of personnel and other	0.60	0.23
Energy Production Enhancement SRL	Other services	0.02	-
Total OMV Petrom S.A. subsidiaries		**9,936.18**	**1,074.89**
Other related parties			
OMV Supply & Trading Limited	Sales of petroleum products	648.79	66.49
OMV Deutschland GmbH	Sales of propylene	178.05	30.16
OMV Exploration & Production GmbH	Delegation of personnel and other	17.57	3.10
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	61.56	20.49
OMV Aktiengesellschaft	Delegation of personnel and other	11.89	2.76
OMV Trading GmbH	Services and other	63.14	-
OMV Gas & Power GmbH	Delegation of personnel and other	1.10	-
OMV Petrom Global Solutions SRL	Various services	23.76	3.62
Trans Gas LPG Services S.R.L.	Various services	0.11	0.03
Borealis AG	Various services	0.02	-
OMV Supply & Trading AG	Sales of petroleum products	-	0.67
Petrom Nadlac S.R.L.	Various services	-	0.01
Total other companies		**1,005.99**	**127.33**
Total		**10,942.17**	**1,202.22**

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

27. RELATED PARTIES (continued)

During 2015, the Company had the following transactions with related parties (including balances as of December 31, 2015):

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. subsidiaries			
OMV Petrom Gas S.R.L.	Acquisition of gas and other	83.96	19.35
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	50.84	34.95
OMV Petrom Aviation S.A.	Airport sales services	24.50	1.44
Petromed Solutions S.R.L.	Medical services	23.28	1.94
OMV Petrom Wind Power S.R.L.	Acquisition of electricity and green certificates	21.80	2.25
OMV Bulgaria OOD	Delegation of personnel and other	0.78	0.48
Petrom Moldova S.R.L	Various services	0.42	0.04
Kom Munai LLP	Various services	0.24	-
OMV Srbija DOO	Acquisition of petroleum products	0.15	0.15
Total OMV Petrom S.A. subsidiaries		**205.97**	**60.60**
Other related parties			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	416.99	25.26
OMV Supply & Trading Limited	Acquisition of petroleum products	235.06	0.84
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	147.66	35.06
OMV International Oil & Gas GmbH	Delegation of personnel and other	76.16	5.80
OMV Exploration & Production GmbH	Delegation of personnel and other	66.37	15.33
OMV Trading GmbH	Services and other	51.85	7.99
OMV Aktiengesellschaft	Delegation of personnel and other	21.99	7.86
OMV Gas & Power GmbH	Delegation of personnel and other	2.17	5.16
OMV Supply & Trading AG	Various services	0.82	-
OMV Austria Exploration & Production GmbH	Various services	0.78	0.25
OMV Deutschland GmbH	Various services	0.35	-
OMV Samsun Elektrik Üretim Sanayi ve Ticaret A.Ş.	Delegation of personnel and other	0.26	-
OMV Solutions GmbH	Delegation of personnel and other	0.09	0.09
OMV International Services GmbH	Various services	0.01	-
Total other related parties		**1,020.56**	**103.64**
Total		**1,226.53**	**164.24**

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

27. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	6,982.83	605.48
OMV Petrom Gas S.R.L.	Sales of gas	3,174.67	341.39
OMV Bulgaria OOD	Sales of petroleum products	355.25	28.55
Petrom Moldova S.R.L	Sales of petroleum products	190.73	0.08
OMV Srbjia DOO	Sales of petroleum products	67.64	8.22
Tasbulat Oil Corporation	Delegation of personnel and other	12.90	15.37
Kom Munai LLP	Delegation of personnel and other	10.57	2.02
Petromed Solutions S.R.L.	Financial, IT and other services	2.15	0.20
OMV Petrom Wind Power S.R.L.	Delegation of personnel and other	0.74	0.14
OMV Petrom Aviation S.A.	IT and other services	0.23	0.05
Petrom Exploration & Production Limited	Advance payment for delegation of personnel	0.01	0.01
Total OMV Petrom S.A. subsidiaries		**10,797.72**	**1,001.51**
Other related parties			
OMV Supply & Trading Limited	Sales of petroleum products	957.41	12.37
OMV Deutschland GmbH	Sales of propylene	228.89	22.15
OMV Trading GmbH	Services and other	67.79	2.92
OMV Supply & Trading AG	Sales of petroleum products	59.98	0.65
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	34.20	1.64
OMV Petrom Global Solutions S.R.L.	Various services	27.99	2.81
OMV Exploration & Production GmbH	Delegation of personnel and other	27.81	4.51
OMV Aktiengesellschaft	Delegation of personnel and other	23.85	2.85
OMV Solutions GmbH	Delegation of personnel	3.71	-
OMV Gas & Power GmbH	Delegation of personnel and other	0.40	0.04
Petrol Ofisi A.Ş.	Sales of petroleum products	0.35	0.02
Trans Gas LPG Services S.R.L.	Various services	0.11	0.04
Borealis AG	Various services	0.01	-
Petrom Nadlac S.R.L.	Various services	0.01	0.01
Total other related parties		**1,432.51**	**50.01**
Total		**12,230.23**	**1,051.52**

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

27. RELATED PARTIES (continued)

During 2016, there were in place intercompany loans granted by the Company to the following subsidiaries and associates:

a) OMV Bulgaria OOD: one intercompany loan with maximum limit of EUR 82.50 million, maturity December 30, 2018;

b) OMV Srbjia DOO: one intercompany loan with maximum limit of EUR 72.50 million, maturity December 30, 2018;

c) Petrom Moldova S.R.L.: one intercompany loan with maximum limit of EUR 16.50 million, maturity August 7, 2019; the contractual amount was decreased in March, 2016 to a maximum limit of EUR 9.67 million;

d) OMV Petrom Wind Power S.R.L.: one intercompany loan with maximum limit of EUR 36.30 million, maturity April 22, 2020.

e) OMV Petrom Marketing S.R.L.: one intercompany loan with maximum limit of USD 238.00 million, maturity May 31, 2018;

f) OMV Petrom Gas S.R.L.: one intercompany loan with maximum limit of USD 80.00 million, maturity May 14, 2019;

g) OMV Petrom Global Solutions S.R.L.: one intercompany loan with maximum limit of RON 27.00 million, maturity June 15, 2019;

h) Petrom Nadlac S.R.L.: one intercompany loan with maximum limit of RON 2.70 million, maturity April 30, 2019.

i) Energy Production Enhancement S.R.L.: one intercompany loan with maximum limit of RON 0.10 million, maturity June 30, 2016. The loan was fully repaid on due date.

The balances receivable in respect to these loans, as at December 31, 2016 and December 31, 2015 are presented below:

	Balance at December 31, 2016	**Allowance at December 31, 2016**	**Net balance at December 31, 2016**	**Net balance at December 31, 2015**
OMV Petrom Marketing S.R.L.	793.78	-	793.78	570.08
OMV Petrom Gas S.R.L. *	298.21	-	298.21	349.62
OMV Bulgaria OOD	134.08	-	134.08	169.82
Petrom Moldova S.R.L.	31.81	-	31.81	63.87
OMV Srbjia DOO	14.99	-	14.99	36.22
Petrom Nadlac S.R.L.	-	-	-	1.40
Total	**1,272.87**	**-**	**1,272.87**	**1,191.01**

*) The balance of OMV Petrom Gas S.R.L. is in relation with both intercompany loan and cash pooling agreement. For details about the cash pooling agreements please refer to Note 14c).

As at December 31, 2016 and 2015 the loan receivable from OMV Petrom Wind Power S.R.L., in amount of RON 84.93 million (respectively RON 75.23 million in 2015) is presented under assets held for sale (see note 11).

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

27. RELATED PARTIES (continued)

Interest income and interest expenses as well as balances receivable and balances payable related to interest income and interest expenses in respect to related parties are presented below:

	Interest income 2016	Balances receivable at December 31, 2016	Interest income 2015	Balances receivable at December 31, 2015
OMV Petrom S.A. subsidiaries				
OMV Petrom Marketing S.R.L.	23.67	1.34	20.82	0.81
Kom Munai LLP	2.52	-	2.38	-
OMV Bulgaria OOD	3.12	0.11	4.19	0.15
OMV Petrom Gas S.R.L.	6.27	-	7.03	0.30
OMV Petrom Wind Power S.R.L.	3.04	0.13	3.21	0.13
OMV Srbija DOO	0.70	0.01	1.45	0.03
Petrom Moldova S.R.L.	0.85	0.02	1.52	0.06
Energy Production Enhancement S.R.L.	0.00	0.00	-	-
Petrom Nadlac S.R.L.	0.04	-	0.03	0.00
Total OMV Petrom S.A. subsidiaries	**40.21**	**1.61**	**40.63**	**1.48**
Other related parties	**-**	**-**	**-**	**-**
Total	**40.21**	**1.61**	**40.63**	**1.48**

	Interest expenses 2016	Balances payable at December 31, 2016	Interest expenses 2015	Balances payable at December 31, 2015
OMV Petrom S.A. subsidiaries				
OMV Petrom Marketing S.R.L.	1.74	0.22	1.67	0.06
OMV Petrom Gas S.R.L.	0.25	-	1.67	-
OMV Petrom Aviation S.A.	0.11	0.01	0.14	0.01
Petromed Solutions S.R.L.	0.05	0.00	0.08	0.01
OMV Petrom Wind Power S.R.L.	-	-	-	-
Total OMV Petrom S.A. subsidiaries	**2.15**	**0.23**	**3.56**	**0.08**
Other related parties				
OMV Petrom Global Solutions S.R.L.	0.77	0.06	1.10	0.08
Total other related parties	**0.77**	**0.06**	**1.10**	**0.08**
Total	**2.92**	**0.29**	**4.66**	**0.16**

27. RELATED PARTIES (continued)

Ultimate parent

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft being the ultimate parent of the Group, with its office based at Trabrennstraße 6-8, 1020 Vienna, Austria. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 24.9%).

The consolidated financial statements of OMV Aktiengesellschaft are prepared in accordance with IFRS adopted by EU and in accordance with the supplementary accounting regulations pursuant to Sec. 245a, Para. 1 of the Austrian Company Code (UGB) and are available on OMV's website:
http://www.omv.com/portal/01/com/omv/OMV_Group/investors-relations/reportsandpresentations.

Key management remuneration

For 2016 and 2015, the General Meeting of Shareholders approved a net remuneration for each member of the Supervisory Board amounting to EUR 20,000 per year and an additional net remuneration for each committee member of EUR 4,000 per meeting of the respective committee of the Supervisory Board.

At December 31, 2016 and 2015 there are no loans or advances granted by the Company to the members of the Supervisory Board.

As at December 31, 2016 and 2015, the Company does not have any obligations regarding pension payments to former members of the Supervisory Board.

The remuneration paid to members of the Executive Board and to the directors reporting to Executive Board members consists of a fixed monthly salary, bonuses and other benefits, including benefits in-kind. The aggregate amount of remuneration and other benefits, including benefits in-kind, paid in 2016 to the benefit of the members of the Executive Board and of the directors reporting to Executive Board members, collectively as a group, for their activities performed in all capacities, amounted to RON 52.71 million (2015: RON 54.26 million).

28. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of other borrowings

During 2016 OMV Petrom S.A. has repaid borrowings amounting to RON 213.56 million (2015: RON 179.12 million) and finance lease obligations amounting to RON 100.20 million (2015: RON 27.69 million) and has not drawn any borrowings (2015: RON 54.20 million).

b) Investments in subsidiaries

During 2016 a new subsidiary, Energy Production Enhancement S.R.L., was set-up, in which OMV Petrom S.A. holds 99.99% interest, generating cash outflow amounting to RON 0.67 million.

During 2015 OMV Petrom paid in cash an amount of RON 91.76 million for the increase in share capital of Tasbulat Oil Corporation BVI, which further increased share capital of Tasbulat Oil Corporation LLP, and an amount of RON 0.13 million for the increase in share capital of Petrom Exploration & Production Limited. During 2016 the investment in Petrom Exploration & Production Limited further increased with RON 0.25 million.

c) Disposal of financial assets

During 2016 OMV Petrom received an amount of RON 0.15 million (equivalent of EUR 0.03 million) in relation to the liquidation of its subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH.

During 2015 OMV Petrom received an amount of RON 197.80 million (equivalent of EUR 44.56 million) from its subsidiary OMV Petrom Ukraine E&P GmbH, representing reduction of capital contributed in this subsidiary (RON 197.52 million, equivalent of EUR 44.50 million) and part of accumulated profits (RON 0.28 million, equivalent of EUR 0.06 million).

During 2015, the investment in Benz Oil S.A. was sold, generating a cash inflow of RON 0.01 million.

e) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by OMV Petrom S.A. for the year ended December 31, 2016 is of RON 501.18 million (2015: RON 1,609.01 million), out of which the amount of RON 99.28 million is related to operating activities (2015: RON 174.99 million) and the amount of RON 401.90 million represents cash outflows for exploration investing activities (2015: RON 1,434.02 million).

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Estimates of fair value at year end date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at year end date for similar liabilities with like maturities (level 2 hierarchy).

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value. In accordance with IFRS 13, the individual levels are defined as follows:
Level 1: Using quoted prices in active markets for identical assets or liabilities.
Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

Fair value hierarchy for derivative instruments as at December 31, 2016

Financial instruments on asset side	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives designated and effective as hedging instruments	-	-	-	**-**
Other derivatives	-	0.00	-	0.00
Total	**-**	**0.00**	**-**	**0.00**

Financial instruments on liability side	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	**-**
Other derivatives	-	(9.41)	-	(9.41)
Total	**-**	**(9.41)**	**-**	**(9.41)**

Fair value hierarchy for derivative instruments as at December 31, 2015

Financial instruments on asset side	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives designated and effective as hedging instruments	-	-	-	**-**
Other derivatives	-	105.16	-	105.16
Total	**-**	**105.16**	**-**	**105.16**

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments on liability side	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	(101.97)	-	(101.97)
Total	**-**	**(101.97)**	**-**	**(101.97)**

The financial liabilities and financial assets whose fair values differ from their carrying amounts as at December 31, 2016 and December 31, 2015 (Level 2 – observable inputs), as well as the respective differences are presented in the tables below. The fair values of these financial assets and liabilities were determined by discounting future cash flows using interest rates prevailing at the reporting date for similar assets and liabilities with similar maturities.

December 31, 2016

Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	905.44	912.12	(6.68)
Finance lease liabilities	195.59	194.06	1.53
Total	**1,101.03**	**1,106.18**	**(5.15)**

Other financial assets	Fair value	Carrying amount	Difference
Loans to subsidiaries	1,272.38	1,272.87	(0.49)
Total	**1,272.38**	**1,272.87**	**(0.49)**

December 31, 2015

Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,095.11	1,091.25	3.86
Finance lease liabilities	283.47	281.64	1.83
Total	**1,378.58**	**1,372.89**	**5.69**

Other financial assets	Fair value	Carrying amount	Difference
Loans to subsidiaries	1,215.06	1,191.01	24.05
Total	**1,215.06**	**1,191.01**	**24.05**

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amounts are reported in the statement of financial position when OMV Petrom has a current legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. OMV Petrom enters in the normal course of business into various master netting arrangements in the form of International Swaps and Derivatives Association (ISDA) agreements or other similar arrangements.

As at December 31, 2016 there were no significant offsetting financial assets and liabilities.

The following table presents the carrying amounts of recognized financial assets and liabilities that are subject to various netting arrangements, amounts that meet the criteria of offsetting in the statement of financial position as at December 31, 2015 in accordance with IAS 32 and shows in the net column the amounts presented in the statement of financial position.

Offsetting of financial assets 2015

	Gross amounts financial assets	Financial liabilities set-off	Net amounts presented in the statement of financial position	Financial liabilities with right of set-off (not offset)	Net amounts
Derivative financial instruments	199.80	(97.83)	101.97[(1)]	-	101.97
Other financial assets	64.31	(42.88)	21.44[(1)]	-	21.44
Total	**264.11**	**(140.70)**	**123.41**	**-**	**123.41**

[(1)] *included in Other financial assets of RON 3,641.17 million in the statement of financial position*

Offsetting of financial liabilities 2015

	Gross amounts financial liabilities	Financial assets set-off	Net amounts presented in the statement of financial position	Financial assets with right of set-off (not offset)	Net amounts
Derivative financial instruments	199.80	(97.83)	101.97[(2)]	-	101.97
Other financial liabilities	64.31	(42.88)	21.44[(2)]	-	21.44
Total	**264.11**	**(140.70)**	**123.41**	**-**	**123.41**

[(2)] *included in Other financial liabilities of RON 245.18 million in the statement of financial position*

30. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2016 the total commitments engaged by the Company for investments (except those in relation to joint arrangements) are in amount of RON 590.80 million (2015: RON 919.26 million), out of which RON 482.17 million related to property, plant and equipment (2015: RON 798.38 million) and RON 108.63 million for intangible assets (2015: RON 120.88 million).

The Company has additional commitments in relation to joint arrangements. For details please refer to Note 31.

Litigations

The Company provides for litigations that are likely to result in obligations. Management is of the opinion that litigations, to the extent not covered by provisions or insurance, will not materially affect the Company's financial position. The production facilities and properties of the Company are subject to a variety of environmental protection laws and regulations; provisions are made for probable obligations arising from environmental protection measures.

Contingent liabilities

OMV Petrom S.A. has contingent liabilities representing performance guarantees in amount of RON 26.30 million as at December 31, 2016 (December 31, 2015: RON 29.20 million) and several parent company guarantees (PCG's) with total exposure of RON 660.95 million (December 31, 2015: RON 718.67 million), as follows:

- a PCG issued on behalf of OMV Srbjia DOO to cover the risk of non-payment of liabilities for fuels to supplier Nafta Industrija Srbije j.s.c, to the limit of RON 113.53 million at December 31, 2016 (December 31, 2015: RON 113.11 million), equivalent of EUR 25.00 million;
- two PCGs which warrant OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. the repayments of utilized amounts under the 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. As at December 31, 2016 and 2015, the exposure related to the guarantee given is fully reflected under provision for risk and charges (see Note 13);
- a PCG which warrants European Bank for Reconstruction and Development the repayments of utilized amounts and related obligations under the loan granted by European Bank for Reconstruction and Development to Kom Munai LLP. The utilized amount as of December 31, 2016 amounts to RON 547.42 million (equivalent of USD 127.21 million; 2015: RON 588.97 million, equivalent of USD 142.00 million);
- as at December 31, 2015, OMV Petrom had also issued a PCG on behalf of Petrom Moldova S.R.L. to cover the risk of non-payment of liabilities for fuels to supplier Proton Energy Group, to the limit of RON 16.59 million (equivalent of USD 4.00 million).

Company activities related to refining of petroleum products could lead to obligations related to soil remediation activities, depending on the requirements of environmental agencies, when these activities are closed. With reference to Arpechim refinery site, at the date of these financial statements, a reliable estimation of the amount required to settle a potential remediation obligation cannot be made, as the performance of specialized studies to determine the degree of contamination, if any, is prevented by the physical existence of the installations; consequently, no provision has been booked by the company in this respect.

30. COMMITMENTS AND CONTINGENCIES (continued)

OMV Petrom S.A. is subject to a partial tax audit having as scope the oil and gas royalties for the period 2011-2015. Due to various interpretations of the legal provisions with regard to calculation of gas royalties, the tax audit has been suspended until clarification of such legal basis. The Company considers it fully observed all relevant legal provisions enforced by competent regulatory authorities and therefore assesses that it is not probable that an outflow of resources embodying economic benefits will be required. Considering all the above, the Company did not reflect any provision in the financial statements in relation to this matter.

31. INTERESTS IN JOINT ARRANGEMENTS

OMV Petrom S.A. entered into a farm out arrangement with ExxonMobil Exploration and Production Romania Limited ("Exxon") with the purpose to explore and develop the Neptun Deepwater block in Black Sea and has a participating interest of 50%. Starting August 2011, ExxonMobil has been appointed as operator (previously OMV Petrom S.A. was operator).

OMV Petrom S.A. entered into a farm out arrangement with Hunt Oil Company of Romania S.R.L. ("Hunt") with the purpose to explore and develop Adjud and Urziceni East onshore blocks and has a participating interest of 50%. Starting October 2013, Hunt has been appointed as operator (previously OMV Petrom S.A. was operator).

In 2013 OMV Petrom S.A. entered into four farm out arrangements with Repsol with the purpose to explore and develop four onshore blocks (Băicoi V, Târgovişte VI, Piteşti XII and Târgu Jiu XIII) for the area deeper than 2,500-3,000 m and has a participating interest of 51%. OMV Petrom S.A. has been appointed operator.

In 2012 OMV Petrom S.A. signed a transfer agreement with ExxonMobil, Sterling Resources Ltd. and Petro Ventures Europe B.V. for the purchase of hydrocarbon exploration and production rights to the deep water portion of the XV Midia Block ("Midia Deep"). Following completion of the transfer agreement in 2014, the participating interests in Midia Deep are: ExxonMobil 42.5%, OMV Petrom 42.5%, and Gas Plus 15% and ExxonMobil was the operator of petroleum operations. During 2016, the titleholders applied to the National Agency for Mineral Resources for the relinquishment of the concession agreement, which was approved at the beginning of 2017.

Joint activities described above are classified as joint operations according with IFRS 11.

OMV Petrom's share of the aggregate capital commitments for these joint arrangements as at December 31, 2016 is amounting RON 57.82 million (2015: RON 333.29 million), mainly in relation to off-shore drilling requirements.

32. RISK MANAGEMENT

Capital risk management

OMV Petrom S.A. continuously manages its capital adequacy to ensure that it is optimally capitalized, in accordance with its risks exposure in order to maximize the return to stakeholders. The capital structure of OMV Petrom S.A. consists of shareholders' equity (comprising share capital, retained earnings and other reserves as disclosed in the "Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 14). Capital risk management at OMV Petrom S.A. is part of the value management and it is based on permanent review of the gearing ratio of the Company.

Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents. Due to the significant cash balance at December 31, 2016, OMV Petrom S.A. switched to a net cash position of RON 200.47 million, compared to the December 31, 2015 net debt position of RON 1,070.24 million. The gearing ratio (calculated as net debt/ equity *100) was 4% as at December 31, 2015.

The Company's management reviews the capital structure as well as risk reports regularly. As part of this review, the cost of capital and the risks associated with each class of capital are considered.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

Financial risk management objectives and policies

The objective of OMV Petrom Risk Management function is to secure positive economic value added for medium term time horizon by managing the Company's cash flow exposure within the risk appetite. Low probability high potential impact risks are monitored individually.

The Risk Management function reports twice per year to OMV Petrom Executive Board and Supervisory Board's Audit Committee, an overview of OMV Petrom Group's risk profile for midterm horizon, as well as the risk management activities and initiatives undergone for mitigating the Company's risk exposures.

Risk exposures and responses

OMV Petrom S.A.'s Risk Management function performs a central coordination of an Enterprise Wide Risk Management (EWRM) process in which it actively pursues the identification, analysis, evaluation and treatment of significant risks (market and financial, operational and strategic) in order to minimize their effects on cash flows up to an acceptable level agreed as the risk appetite.

Risk Management function monitors and manages all significant risks of the Company through an integrated process in line with ISO 31000 EWRM standard, by internal risk reports and regular assessments which analyze all significant risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market and financial risk category plays an important role in the Company's risk profile and is managed with special diligence – market and financial risk includes, among others, foreign exchange risk, interest rate risk, counterparty credit risk, commodity market price risk and liquidity risk.

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

32. RISK MANAGEMENT (continued)

Response wise, any risk which increases near to its significance level or which is sensitive to the risk appetite level and it rapidly develops is monitored and alert is issued. For these situations individual and case specific treatment plans are proposed, approved and implemented accordingly in order to decrease the exposures down to acceptable levels.

Commodity Market Price Risk

The Company is naturally exposed to the market risks arising out of the price driven volatility of the cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. The market risk has core strategic importance within the Company's risk profile and its midterm liquidity. The market price risks of the Company's commodities are very closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within the Company's midterm objectives.

Financial instruments may be used where appropriate to hedge the main industry risks associated with price volatility such as the highly negative impact of low oil prices on cash flow.

Foreign exchange risk management

Because OMV Petrom operates in many currencies, industry specific activities and the corresponding exchange risks are analyzed. OMV Petrom is mostly exposed to the movement of the US dollar and Euro against Romanian leu. Other currencies have only limited impact on cash flows and EBIT.

Foreign currency sensitivity analysis

The carrying amounts at the reporting date of foreign currency denominated monetary assets and liabilities of OMV Petrom, which induce sensitivity to EUR/USD exchange rate in the financial statement, are as follows:

	December 31, 2016	December 31, 2015
Assets		
Thousand USD	210,967	223,857
Thousand EUR	121,552	101,646
Liabilities		
Thousand USD	464,830	521,626
Thousand EUR	330,168	344,412

The following table details the Company's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in total comprehensive income generated by a 10% currency fluctuation and a negative number below indicates a decrease in total comprehensive income with the same value.

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

32. RISK MANAGEMENT (continued)

+10% increase in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2016	2015	2016	2015
Profit/ (Loss)	(25,386)	(29,777)	(20,862)	(24,277)
Other comprehensive income	-	-	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2016	2015	2016	2015
Profit/ (Loss)	25,386	29,777	20,862	24,277
Other comprehensive income		-	-	-

(i) This is mainly attributable to the exposure on USD loans, and to parent company guarantee issued in USD.
(ii) This is mainly attributable to the exposure on EUR loans and leases.

The above sensitivity analysis of the inherent foreign exchange risk shows the translation exposure at the end of the year; however the cash flow exposure during the year is continuously monitored and managed by the Company.

Interest rate risk management

To facilitate management of interest rate risk, the Company's liabilities are analyzed in terms of fixed and variable rate borrowings, currencies and maturities.

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates (with all other variables held constant).

Analysis for change in interest rate risk:

Variable rate borrowings:	**Balance as at**		**Effect of 1% change in interest rate**	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Short term borrowings	729.58	545.49	7.30	5.45
Long term borrowings	730.08	909.51	7.30	9.10

In 2016, there was no need for hedging the interest rate risk, hence no financial instruments were used for such scope.

32. RISK MANAGEMENT (continued)

Counterparty Credit Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The main counterparty credit risks are assessed, monitored and managed using predetermined limits for specific countries, banks and business partners. On the basis of creditworthiness, 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 all counterparties depending on their liquidity class, parts of their credit limits is secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by strict guidelines.

The Company does not have any significant credit risk concentration exposure to any single counterparty or any group of counterparties having similar characteristics, besides the members of its Group.

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. To ensure that the Company remains solvent all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Company's financial liabilities is presented in Note 15.

33. SUBSEQUENT EVENTS

There are no significant events subsequent to the reporting date.

These financial statements, presented from page 10 to page 80, comprising statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, were approved on March 23, 2017.

Mariana Gheorghe
Chief Executive Officer

Andreas Matje
Chief Financial Officer

Peter Zeilinger
Executive Board Member Upstream

Lăcrămioara Diaconu-Pințea
Executive Board Member
Downstream Gas

Neil Morgan
Executive Board Member
Downstream Oil

Irina-Nadia Dobre
Director Finance Department

Nicoleta-Mihaela Drumea
Head of Financial Reporting