OMV Petrom

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The spoken word applies. Check against delivery.

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Slide 1 – Intro

Good afternoon, ladies and gentlemen, and a warm welcome from my side.

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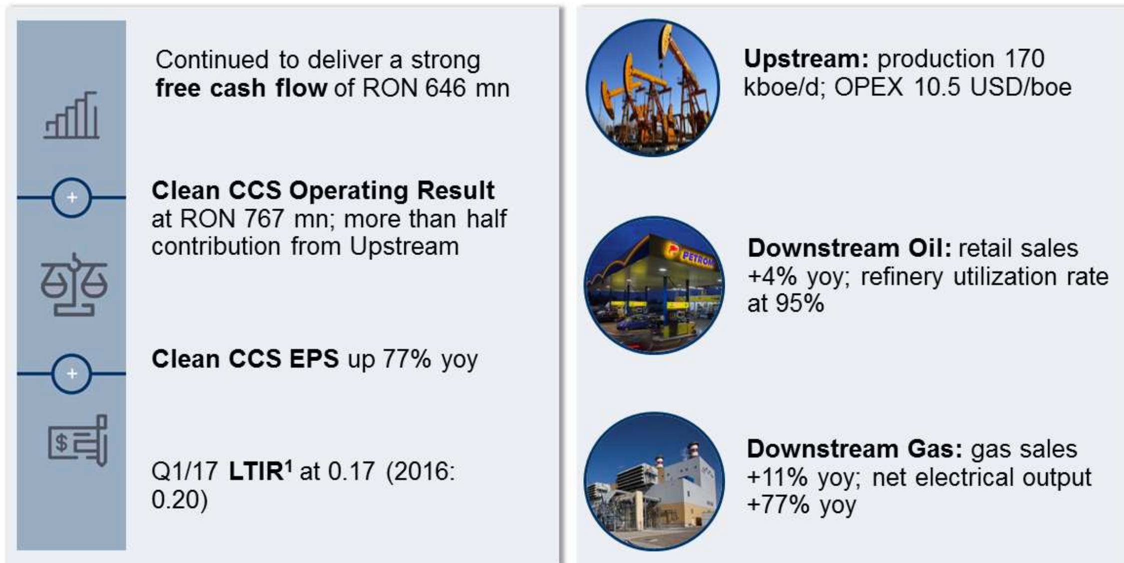
Slide 2 – Legal Disclaimer

Before we start the actual presentation, please let me draw your attention to our Legal Disclaimer, which you can read in detail on slide 2.

Key messages Q1/17



[1] Lost time injury rate (employees and contractors) for OMV Petrom Group excluding Kazakhstan

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Slide 3 – Key messages Q1/17

Moving to slide 3, let me start with some key highlights. In Q1/17, we were able to convert improved market fundamentals into a strong operational and financial performance. We generated a substantially improved operating cash flow of RON 1.3 billion, which together with capex reduction led to a free cash flow of RON 646 million.

Our clean CCS Operating Result significantly improved both year-on-year and quarter-on-quarter, to RON 767 million, which is almost half of the entire 2016 figure. Upstream delivered almost 60% in Q1/17, whereas, in Q1/16, it had a negative contribution. This change was mainly due to increased oil prices and further reduced production costs.

At the same time, the Downstream contribution increased by 3% year-on-year, due to improved overall performance and strict cost management, being supported by strong refining margins. We recorded particularly good sales volumes in the gas and power business, which we will detail later.

Following the positive operating performance, our Clean CCS EPS significantly increased year-on-year by 77%.

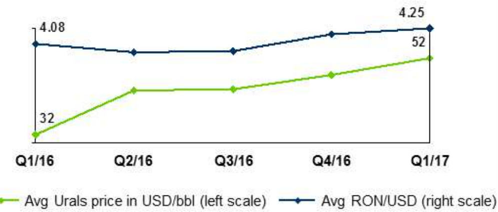
As for the lost time injury rate, this stood at 0.17 in Q1/17, which compares positively with industry standards.

Economic environment

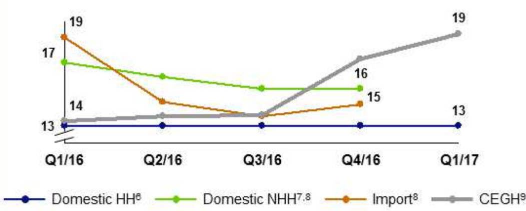
Romanian macroeconomic environment

- **2016 GDP growth**[1]: 4.8% yoy
- **Q1/17 average monthly CPI**: -0.1% yoy
- **Budget balance**: +0.2% of GDP end March 2017
- **FDI**: EUR 655 mn in Jan-Feb, -1% yoy
- **Investment grade rating**: Moody's revised prospect from "positive" to "stable"
- **Demand Q1/17 yoy:** Fuels[2] 4.5%; Gas[3] 18%; Power[4] 10%

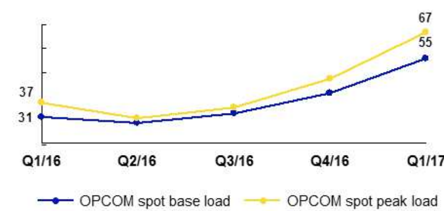
Oil price (USD/bbl) **and FX** (USD/RON)



Gas prices (EUR/MWh)[5]



Power prices in Romania (EUR/MWh)[5]



[1] Romanian National Institute of Statistics; [2] Fuels refer only to retail diesel and gasoline; [3] According to company estimates; [4] According to preliminary data available from the grid operator; [5] Converted from RON into EUR, FX rate: 4.5; [6] Regulated price for households; [7] Price for gas sold by producers to the suppliers of end-users in the free market; [8] As published by ANRE (Q4/16 price has been extrapolated from the October 2016 price, latest published by ANRE); [9] Central European Gas Hub

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Slide 4 – Economic environment

On slide 4, we provide a few macroeconomic highlights on Romania, our main market, which showed another solid economic performance. Without going into all details, I would like to highlight the robust year-on-year GDP growth, one of the highest in the European Union, at 4.8% for 2016.

Moody's reconfirmed the Baa3 rating for long-term debt, but changed the outlook from "positive" to "stable" due to expectation of a significant deterioration in Romania's fiscal position and its impact on its debt trajectory.

Looking at the Romanian energy sector, we can see that market demand for our main products has further improved in Q1/17. The demand for fuels, and here I refer only to retail diesel and gasoline sales, increased by around 4.5% year-on-year.

As for gas demand, according to our estimates, we had a significant year-on-year increase of around 18%, while the demand for electricity also increased strongly, by 10% year-on-year, both due to colder weather conditions.

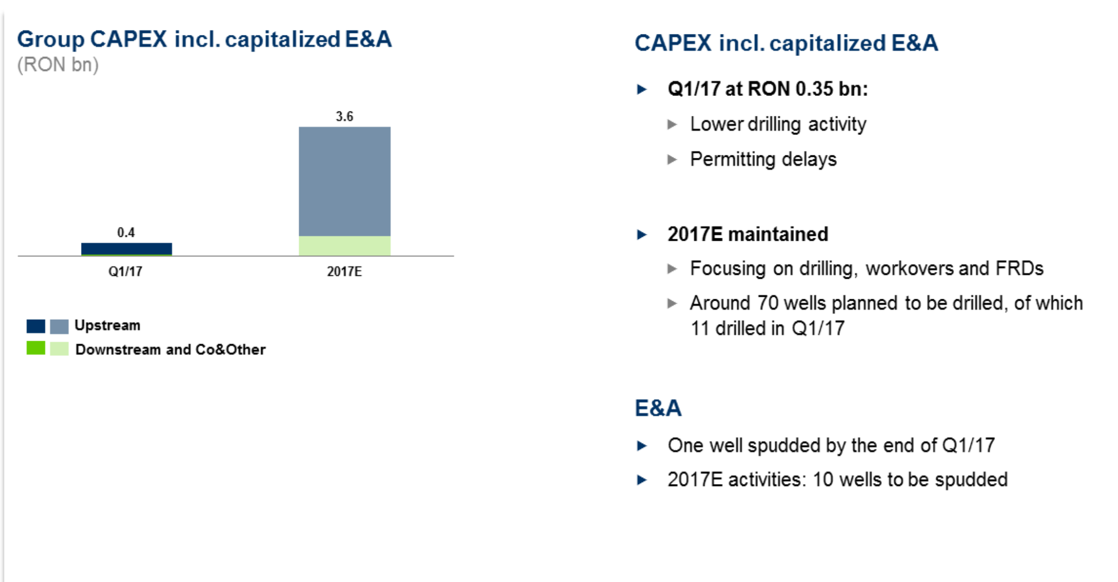
Let me also provide you with an overview of the pricing environment for our industry.

In the chart on the upper right, you can see on the blue line that in Q1/17 the USD was stronger versus the RON by some 4% compared to Q1/16. As for the Urals, shown in green, the average for Q1/17 was USD 52/bbl, higher year-on-year by USD 20/bbl or 62%. This is against the backdrop of Q1/16, when oil prices reached their lowest levels in 13 years.

At the lower left, the gas price chart shows, in blue, the domestic regulated price for households at around 13 EUR/MWh, unchanged since July 2015. The green line shows the price published by ANRE, the market regulator, for domestic gas sold by producers to the suppliers of end-users in the free market. However, official statistics are available only until October 2016. The same is true for the imported gas price, shown in orange in the chart. The chart also shows, for reference, the average gas price on the hub in Austria, which, at EUR 19/MWh, was significantly higher versus Q1/16 by some 40% and by some 10% versus Q4/16. These increases were mainly due to colder winter conditions.

Finally, on the lower right, you can see that power prices in Romania (both base and peak load) also enjoyed a significant upturn by over 70% versus the Q1/16 level and by 35% versus Q4/16, again mainly due to the colder winter.

Refining margins will be detailed in the Downstream Oil section later on.



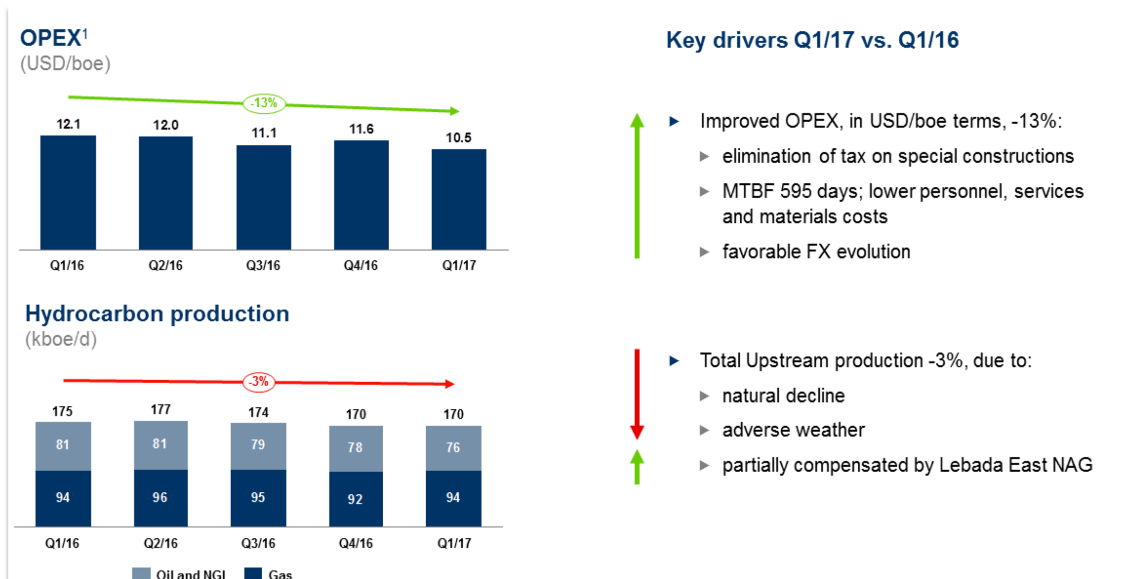
Slide 5 - CAPEX and E&A - guidance maintained

Slide 5 provides an overview of CAPEX and E&A activities. In Q1/17, our total CAPEX was around RON 0.4 bn. The majority was dedicated to Upstream, mainly workover activities, subsurface operations and drilling of development wells. The reduced level of CAPEX in Q1/17 was due to lower drilling activity, as a result of severe winter conditions, the reassessment of our wells portfolio and permitting delays.

We maintain our CAPEX guidance for the whole year at EUR 0.8 billion or RON 3.6 billion as we are confident that investment activity will increase in the next quarters. Our teams are focusing on drilling – the number of wells planned to be drilled in 2017 is double compared to 2016. In the second half of the year, we are planning to ramp up the activity on workovers, FRDs, major surface facilities and other small running business projects, both onshore and offshore.

Regarding exploration activities, our plans include spudding of 10 wells, onshore and shallow offshore. These will be drilled by OMV Petrom (100%) or together with our joint venture partners, Hunt Oil and Repsol.

Upstream KPIs – improved OPEX/boe



[1] OMV Petrom aligned the production cost definition with its industry peers. Administrative expenses and selling and distribution costs are excluded from 2017 onwards. 2016 OPEX figures were re-calculated accordingly.

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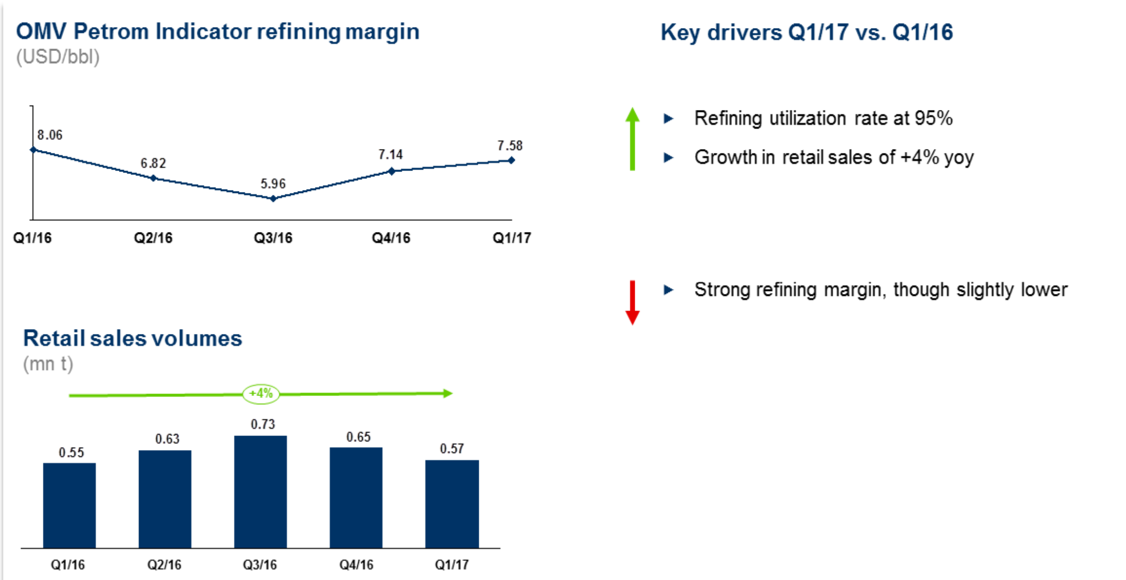
Slide 6 - Upstream KPIs – improved OPEX/boe

And now I would like to present you some operational KPIs for each business segment. I will start with Upstream, on slide 6.

As a priority, we continue to strictly manage our OPEX. In Q1/17, average production costs decreased despite lower production volumes. We reached a level of USD 10.52/bbl, which was lower by 13% compared to Q1/16. This was supported by external factors: the elimination of the tax on special constructions starting January 2017 contributed USD 0.9/bbl, while FX also had a positive impact. Another part of the cost reduction is due to our continuous efficiency efforts: the Mean Time Between Failures indicator reached 595 days at the end of Q1/17 – for the whole year of 2016 this indicator was 555 days, which translated into further reduced personnel, services and material costs.

Hydrocarbon production decreased by 3% in Q1/17 versus Q1/16, in line with our guidance for the whole year. The decrease was due to natural decline and the impact of adverse weather, partially compensated by the Lebada Est Non-Associated Gas project, commissioned in Q2/16, which contributed 4.1 kboe/d.

Downstream Oil KPIs – retail sales volumes up



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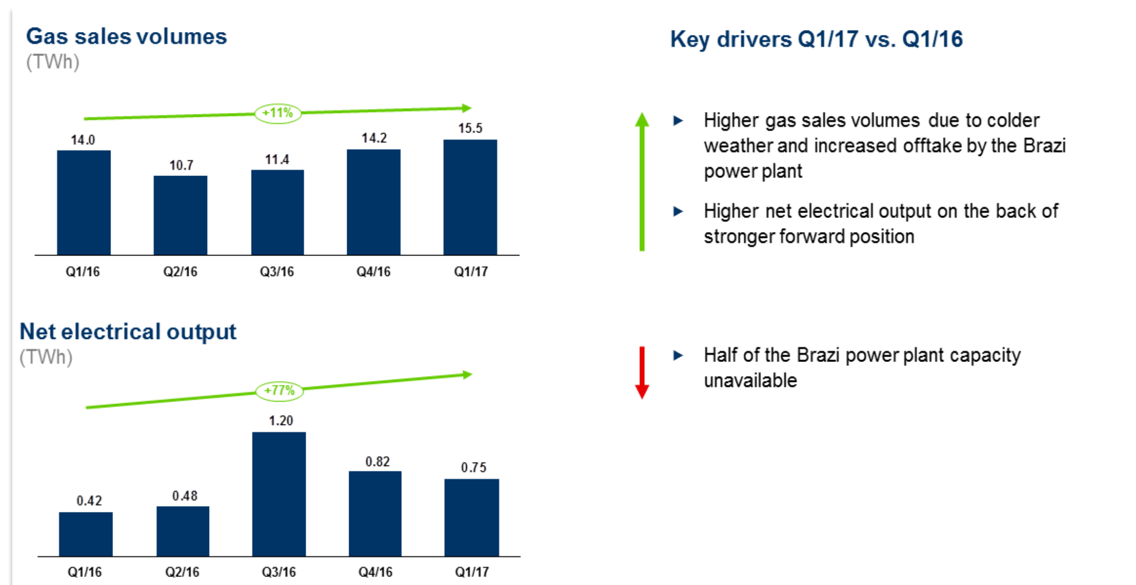
Slide 7 - Downstream Oil KPIs – retail sales volumes up

On slide 7 on the upper left, we show a strong start in 2017 of OMV Petrom's refining margin indicator versus Q4/16. However, there was a USD 0.5/bbl year-on-year decline to USD 7.58/bbl in Q1/17, still a good refining margin. The decline was driven by higher costs for crude consumed, though partially offset by better product spreads.

Among the positives, I would outline the high utilization rate of our refinery at 95% in Q1/17, in line with the previous levels in Q1/16 and Q4/16. We benefited from improved retail demand for fuels, supported by fiscal easing measures in Romania (elimination of the extra excise tax and the 1pp VAT reduction). As a result, we achieved increased retail sales volumes, as shown in the chart on the lower left, up by 4% year-on-year.



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Slide 8 - Downstream Gas KPIs – higher gas & power volumes

Looking at Downstream Gas KPIs on page 8, you can see that our gas sales volumes went up by 11% year-on-year. This was driven both by colder winter conditions and an increased offtake by our Brazi power plant.

Despite the fact that half of the Brazi power plant capacity has been unavailable since October 2016, its net electrical output significantly increased versus Q1/16, on the back of a stronger forward power sales position. This, together with the seasonally higher output of the Dorobantu wind park, resulted in a 77% increase of our overall net electrical output.

Let me now hand over to Andreas, who will go into greater detail of our financials for Q1/17.

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Strong FCF generation in Q1/17

RON mn	Q1/16	Q4/16	Q1/17
Cash flow from operating activities (CFO)	888	1,070	1,262
Thereof, Depreciation, amortization and impairments including write-ups	830	866	792
Change in net working capital (NWC)	(54)	(191)	(176)
Cash flow from investing activities (CFI)	(1,007)	(638)	(616)
Cash flow from financing activities (CFF)	(41)	(239)	9
Cash and equivalents at end of period	653	1,996	2,651
Free cash flow	(118)	432	646

Q1/17 vs. Q1/16

- Q1/17 operating cash flow up 42% due to:
  - higher revenues and operating profits on improved oil prices, higher gas and power volumes
  - continued cost savings
  - partly offset by unfavorable NWC developments
- Cash flow from investments down 39%, mainly due to Neptun Deep and completion of FRD projects in 2016
- FCF turned positive at RON 646 mn
- Net cash position increased to RON 872 mn

Slide 10 - Strong FCF generation in Q1/17

Thank you Mariana and it is with some regret that I address you in this capacity for the last time today. In the light of this telephone conference being my last as CFO of OMV Petrom, I'm very happy to share our good Q1/17 performance with you.

On slide 10, I would like to highlight our further improved free cash flow generation in Q1/17. We achieved about RON 1.3 billion operating cash flow, mainly as a result of higher profit before tax, which, in turn, was generated mainly thanks to higher sales and lower production and operating expenses. As already mentioned by Mariana, we benefited from improved market fundamentals, but we also continued with our cost discipline, something I felt particularly passionate about as CFO.

Negative development for net working capital comes mainly from inventories' evolution, where inflows from products sold were partially impacted by increased imported crude oil quantities in Q1/17 vs Q1/16. This increase is to be seen in the context of a higher CSO obligation in Q1/17 vs Q4/16, while in Q1/16, the obligation decreased compared with Q4/15.

As far as cash outflow for investments is concerned, this reflects the capex trends already presented by Mariana. Our total payments for investments amounted to RON 616 million in Q1/17 versus around RON 1 billion in Q1/16.

Cash flow from financing shows inflows of RON 9 million reflecting higher cash pooling balances payable to our associate company, exceeding in size the loan repayments. In Q1/16 and Q4/16, we had cash outflows of RON 41 million and RON 239 million, respectively.

To sum up, our free cash flow was RON 646 million in Q1/17 versus a negative RON 118 million in Q1/16. The year-on-year improvement was almost equally explained by the significant increase in our operating cash flow and capex reduction. I would also like to outline that Q1/17 is the fourth quarter in a row with a positive free cash flow generation and that we maintain our guidance of a positive free cash flow for the full year 2017.

Please note that we will pay around RON 850 million dividends in Q2/17.

Results summary – Net income more than double

Income Statement

RON mn		Q1/16	Q4/16	Q1/17
Sales		3,649	4,694	4,653
Clean CCS Operating Result		412	453	767
Thereof	Upstream	(73)	246	460
	Downstream Oil	255	288	280
	Downstream Gas	47	5	32
	Corporate and Other	(14)	(25)	(21)
	Consolidation	196	(60)	17
Operating Result		346	335	798
Financial result		(3)	(102)	(56)
Taxes		(55)	(73)	(124)
Net income [1]		291	162	619
Clean CCS net income [1]		330	263	586

Q1/17 vs. Q1/16

- Improved Clean CCS Operating Result by 86%
- Elimination of construction tax: favorable effect of RON 63 mn
- Upstream result supported by Urals up 62% and lower OPEX
- Downstream Oil result improved following strict cost management and higher sales
- Downstream Gas: overall improved operational performance offset by provisions for receivables
- Consolidation: much lower positive effect following increase of crude oil quotations

[1] *Attributable to stockholders of the parent*

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Slide 11 - Results summary – Net income more than double

On slide 11, let me show you the summary of our Income statement. Please note also the changes in our Income Statement structure, which are explained in greater detail in our Q1/17 Investor News report.

Sales increased by 27% year-on-year, helped by significantly higher oil prices and increased gas and power sales volumes, which more than offset slightly lower volumes of petroleum products sold and the decrease in gas prices.

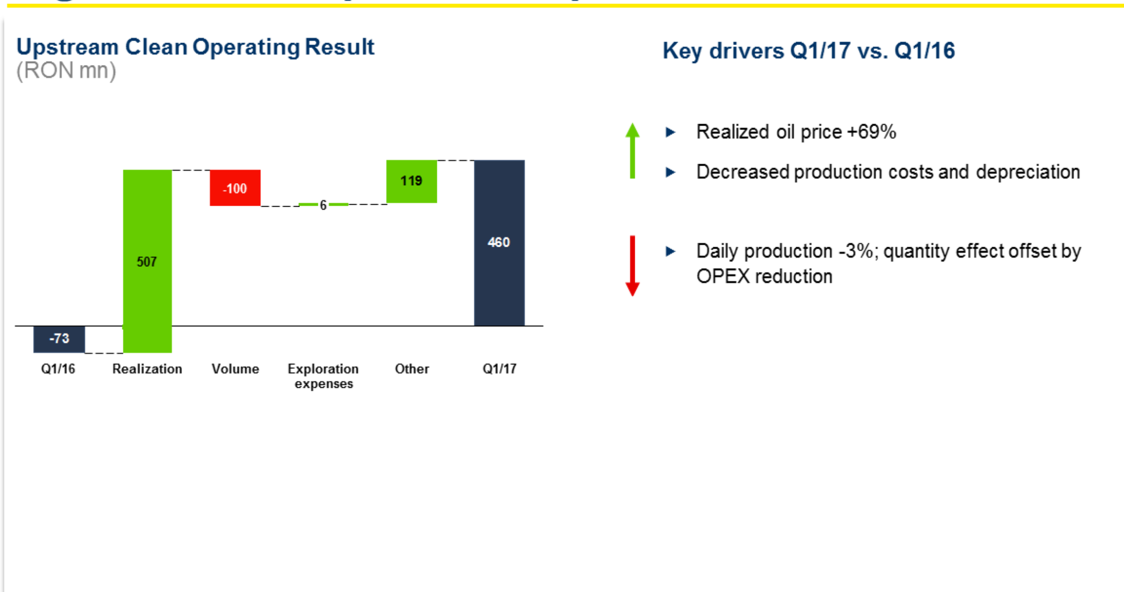
The Q1/17 Clean CCS Operating Result increased by 86% year-on-year, while the Reported Operating Result more than doubled, from RON 346 million to RON 798 million. In addition to the sales increase, the Operating Result improvement was also driven by the elimination of the tax on special constructions, which led to a favorable cost impact of RON 63 million, and by lower production and operating expenses.

I will detail the Operating Results by main business segments in the following slides. Let me say here only that we benefitted from better market fundamentals, i.e. improved oil prices in Upstream and higher retail demand for fuels in Downstream Oil. We continued with strict cost discipline in all business segments. The Consolidation line shows the margin elimination related to our segmental reporting. The positive contribution in Q1/17 is a net effect of reduced gas in storage, lower margins of crude oil and higher quantities of refined product stocks. The much higher reversal of unrealized margin elimination in Q1/16 was driven by lower volumes of crude and gas stocks at the end of the quarter as well as by lower crude and product margins.

The net financial loss was higher year-on-year at RON 56 million, as Q1/16 was influenced by the positive outcome of our appeal to the fiscal review decision in our Kazakh branch.

As a result of all the above, the net profit attributable to stockholders more than doubled year-on- year.

Higher realized prices in Upstream



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Slide 12 - Higher realized prices in Upstream

Let me move on to page 12, which shows the bridge of the Upstream Clean Operating Result from Q1/16 to Q1/17, implying a strong improvement of our operational performance compared to Q1/16.

With the realized oil price increasing by around 69% year-on-year to approximately USD 45/bbl in Q1/17 and a favorable FX development, there was a positive realization effect of approximately RON 500 million.

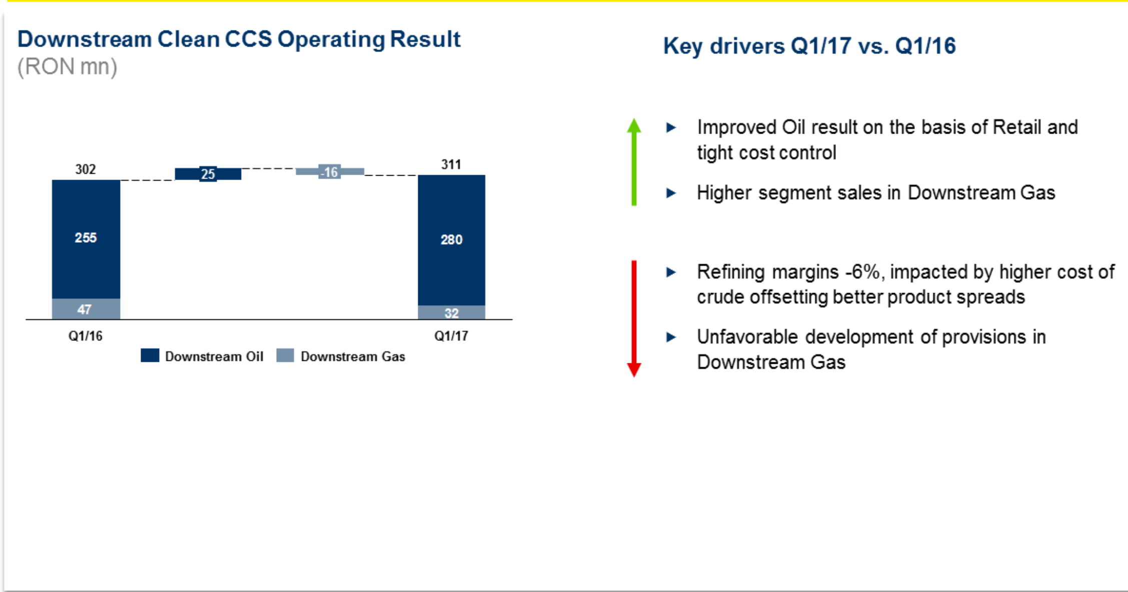
Hydrocarbon production was 3% lower, resulting in a negative volume effect of RON 100 mn.

Exploration expenses were lower by RON 6 million, mainly due to studies and related costs' write-offs that were lower compared to the previous year.

Other positive developments relate to the following: first, we achieved a decrease in production costs, as already highlighted by Mariana; and second, depreciation decreased due to the 2016 year-end reserves' revision and lower impairments.

As a result, the Q1/17 Clean Operating Result amounted to RON 460 million.

Increased Downstream Clean CCS Operating Result



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Slide 13 – Increased Downstream Clean CCS Operating Result

Slide 13 shows a 3% higher Clean CCS Operating Result of Downstream overall. We had a higher contribution of Downstream Oil in Q1/17 versus Q1/16 mainly as a result of increased segment sales, as well as due to tight cost control. Retail sales were supported by increased sales of premium products due to more severe winter conditions. Also an excellent performance in our non-oil business contributed to the good performance.

In Downstream Gas, we achieved higher segment sales year-on-year, driven by improved gas and power sales volumes and spark spreads. However, this improvement was more than offset by the net effect of provisions for outstanding receivables, with RON (7) mn in Q1/17 versus a reversal of RON 15 mn in Q1/16.

Outlook 2017

Assumptions	Targets
▸ **Brent** at USD 55/bbl	▸ **Production** decline up to 3% yoy
▸ **Refining** margins downward trend for the rest of the year	▸ **CAPEX** budget increased to EUR 0.8 bn (~85% in Upstream)
▸ **Fuel** demand on an upward trend	▸ Positive **FCF** after dividends
▸ **Gas** demand broadly flat; high competition and margin pressure	▸ Strong **balance sheet** maintained
▸ **Power** demand relatively stable; positive average spark spreads	▸ Attractive dividend

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Slide 14 – Outlook 2017

Let me finish the presentation with the outlook for 2017, at page 14. Here I want to highlight the main assumptions we consider in respect of market development, as well as the targets we have set ourselves for 2017.

First of all, we maintain our estimate of an average Brent oil price of USD 55/bbl for the full-year 2017, contingent, amongst other factors, on OPEC position going forward.

We expect the refining margins to remain on a similar level compared to 2016; still, following a strong performance in Q1/17, refining margins are estimated to trend downwards for the rest of the year. Nevertheless, in our view, lower product prices resulting from fiscal easing in Romania will continue to support market demand.

Gas and power demand for 2017 are anticipated to be broadly flat, with high competition and margin pressure in the gas market, but positive spark spreads in power. In the gas market, we continue to expect a challenging regulatory environment due to new legislation. For now, we know that the producer gas price for households will no longer be regulated by ANRE. However, the regulator will continue to set the end prices for households. Also, the RON 72/MWh floor considered for computing the 60/40 tax on revenues from gas price liberalization was eliminated. Since April 1, 2017, the actually achieved average realized price is therefore the basis for calculating this tax. Yet the 60/40 tax, in force until the end of this year is in the process of being approved by Parliament, therefore changes might still occur.

With regards to our targets for 2017, we maintain our guidance of managing hydrocarbon production decline year-on-year within the range of 3%, not including portfolio optimization initiatives. Upstream CAPEX will continue to represent approximately 85% of total investment, and the total CAPEX budget for the Group will increase by EUR 0.2 billion versus 2016, to EUR 0.8 billion.

Supported by improved commodity prices and continued cost savings, we expect to have a positive free cash flow after dividends. Overall, we continue our efforts to maintain a strong balance sheet in 2017 and remain committed to offer an attractive dividend to our shareholders.

With this let me say thank you to everybody for your support and interesting discussions over the last few years, it was a real pleasure for me to work with you. We are now available for your questions.