



OMV Petrom Group: results¹ for Q4 and January – December 2017

including preliminary and unaudited condensed consolidated financial statements as of and for the period ended December 31, 2017

Highlights Q4/17

- ▶ Clean CCS Operating Result at RON 573 mn, up 26% yoy
- ▶ EPS at RON 0.0113, being 4 times higher yoy
- ▶ Free cash flow after dividends at RON 664 mn, up 54% yoy
- ▶ Clean CCS ROACE at 10%

Dividend proposal 2017²: RON 0.020/share, up 33% yoy.

Mariana Gheorghe, CEO of OMV Petrom S.A.:

"In Q4/17 we benefited from increased demand for electricity and fuels as well as higher commodity prices; against this backdrop, the refining margins were lower by USD 1/bbl yoy. We continued our cost optimization initiatives; however, our Q4/17 results were impacted by higher exploration expenses and one-time costs in connection with the renegotiated Collective Labor Agreement.

The 2017 Clean CCS Operating Result almost doubled yoy to RON 3.3 bn, with Upstream and Downstream contributing almost equally. Upstream benefitted from better realized prices, lower OPEX and depreciation. The Downstream Oil result reflected better refining margins and increased demand. The Downstream Gas result mainly reflected strong spark spreads and the insurance revenues related to the Brazi power plant. All the above led to an operating cash flow of RON 6 bn in 2017. During the year, we made investments of RON 3 bn and paid dividends of RON 0.8 bn, resulting in a free cash flow after dividends of RON 2.7 bn.

For 2018, we plan CAPEX at RON 3.7 bn, mainly for ramping up our drilling activity, the Neptun project, the scheduled full-site refinery turnaround and the Polyfuel project. While our focus remains on extracting the highest value from the existing Upstream portfolio, we estimate the daily average production decline to reach 4% yoy, excluding divestments.

Based on the preliminary results and strong free cash flow achieved in 2017, the Executive Board proposes a dividend of RON 0.020/share for the 2017 financial year, 33% up yoy, implying a 45% payout ratio. The final dividend proposal is to be submitted for approval by both the Supervisory Board and the subsequent April 2018 GMS."

Q4/17	Q3/17	Q4/16	Δ% ³	Key performance indicators (in RON mn)	2017	2016	Δ%
573	1,042	453	26	Clean CCS Operating Result ⁴	3,273	1,700	92
820	873	335	145	Operating Result ⁵	3,270	1,476	122
434	778	263	65	Clean CCS net income attributable to stockholders ^{4,6,7}	2,488	1,162	114
642	639	162	297	Net income attributable to stockholders ⁶	2,491	1,043	139
0.0077	0.0137	0.0046	65	Clean CCS EPS (RON) ^{4,6,7}	0.0439	0.0205	114
0.0113	0.0113	0.0029	297	Earnings Per Share (RON) ⁶	0.0440	0.0184	139
1,508	1,470	1,070	41	Cash flow from operating activities	5,954	4,454	34
664	959	432	54	Free cash flow after dividends	2,666	1,558	71
-	-	-	-	Dividend/share (RON)	0.020 ²	0.015	33

¹The financials are unaudited and represent OMV Petrom Group's (herein after also referred to as "the Group") consolidated results prepared according to IFRS; all the figures refer to OMV Petrom Group, unless otherwise stated; financials are expressed in RON mn and rounded to the closest integer value, so minor differences may result upon reconciliation; OMV Petrom uses the National Bank of Romania exchange rates for its consolidation process

² Subject to approval by the Supervisory Board and the General Meeting of Shareholders

³ Q4/17 vs. Q4/16

⁴ Adjusted for exceptional, non-recurring items; Clean CCS figures exclude special items and inventory holding effects (CCS effects) resulting from Downstream Oil

⁵ The income statement has been restructured in line with the industry's best practice. Further information to be found on page 18

⁶ After deducting net result attributable to non-controlling interests

⁷ Excludes additional special income from a legal dispute reflected in the financial result



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Directors' report (condensed, unaudited)

Financial highlights

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
5,142	5,032	4,694	10	Sales ²	19,435	16,647	17
573	1,042	453	26	Clean CCS Operating Result ³	3,273	1,700	92
340	428	246	38	Clean Operating Result Upstream ^{3,4}	1,674	575	191
360	651	292	23	Clean CCS Operating Result Downstream ³	1,753	1,122	56
(28)	(17)	(25)	(11)	Clean Operating Result Co&O ³	(74)	(62)	(19)
(99)	(20)	(60)	(67)	Consolidation	(80)	65	n.m.
1	16	26	(96)	Clean Group effective tax rate (%)	14	19	(24)
434	778	261	66	Clean CCS net income ^{3,7}	2,487	1,156	115
434	778	263	65	Clean CCS net income attributable to stockholders ^{3,6,7}	2,488	1,162	114
0.0077	0.0137	0.0046	65	Clean CCS EPS (RON) ^{3,6,7}	0.0439	0.0205	114
573	1,042	453	26	Clean CCS Operating Result ³	3,273	1,700	92
145	(173)	(193)	n.m.	Special items ⁵	(105)	(127)	17
103	5	75	37	CCS effects: Inventory holding gains/(losses)	102	(98)	n.m.
820	873	335	145	Operating Result Group	3,270	1,476	122
442	332	159	179	Operating Result Upstream ⁴	1,661	401	314
540	570	295	83	Operating Result Downstream	1,768	1,293	37
(28)	(19)	(28)	(2)	Operating Result Co&O	(76)	(65)	(17)
(134)	(11)	(91)	(48)	Consolidation	(82)	(153)	46
(134)	(111)	(102)	(31)	Net financial result	(366)	(211)	(73)
686	762	233	195	Profit before tax	2,904	1,265	130
6	16	31	(79)	Group effective tax rate (%)	14	18	(21)
642	638	160	301	Net income	2,489	1,038	140
642	639	162	297	Net income attributable to stockholders ⁶	2,491	1,043	139
0.0113	0.0113	0.0029	297	Earnings Per Share (RON) ⁶	0.0440	0.0184	139
-	-	-	-	Dividend/share (RON)	0.020 ⁸	0.015	33
1,508	1,470	1,070	41	Cash flow from operating activities	5,954	4,454	34
664	959	432	54	Free cash flow after dividends	2,666	1,558	71
(2,897)	(2,258)	(237)	n.m.	Net debt/(cash)	(2,897)	(237)	n.m.
1,246	811	760	64	Capital expenditure	2,969	2,575	15
9.8	9.1	4.5	118	Clean CCS ROACE (%) ^{3,7}	9.8	4.5	118
9.9	7.9	4.1	142	ROACE (%)	9.9	4.1	142
13,790	13,886	14,769	(7)	OMV Petrom Group employees at period end	13,790	14,769	(7)

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

¹ Q4/17 vs. Q4/16

² Sales excluding petroleum excise tax;

³ Adjusted for exceptional, non-recurring items; Clean CCS (current cost of supply) figures exclude special items and inventory holding effects (CCS effects) resulting from Downstream Oil; starting with Q1/17, special items include temporary effects from commodity hedging (in order to mitigate Income Statement volatility);

⁴ Excluding intersegmental profit elimination shown in the line "Consolidation";

⁵ Special items, representing exceptional, non-recurring items, are added back or deducted from the Operating Result; for more details please refer to each specific segment;

⁶ After deducting net result attributable to non-controlling interests;

⁷ Excludes additional special income from a legal dispute reflected in the financial result;

⁸ Subject to approval by the Supervisory Board and the General Meeting of Shareholders

Throughout the report, where not specified differently, amounts related to Downstream represent totals of Downstream Oil and Downstream Gas.

Group performance

Fourth quarter 2017 (Q4/17) vs. fourth quarter 2016 (Q4/16)

Consolidated **sales** increased by 10% compared to Q4/16, supported by higher commodity prices and electricity sales volumes, partially offset by lower sales volumes of natural gas. Downstream Oil represented 73% of total consolidated sales, while Downstream Gas accounted for 25% and Upstream for 2% (sales in Upstream being largely intra-group sales rather than third-party sales).

Clean CCS Operating Result increased in Q4/17 by 26% to RON 573 mn, supported by a more favorable market environment, higher demand and the elimination of the tax on special constructions starting in 2017, partially offset by an increase of exploration expenses. The **Clean CCS net income attributable to stockholders** was RON 434 mn (Q4/16: RON 263 mn).

Special items comprise net income of RON 145 mn, mainly due to the reassessment of provisions, while **inventory holding gains** amounted to RON 103 mn in Q4/17. In Q4/16, net special charges amounted to RON (193) mn and inventory holding gains were RON 75 mn.

Reported Operating Result for Q4/17 increased to RON 820 mn, compared to RON 335 mn in Q4/16, driven mainly by higher sales revenues and cost optimization.

Net financial result deteriorated from a loss of RON (102) mn in Q4/16 to a loss of RON (134) mn in Q4/17, reflecting mainly higher interest expenses in relation to the discounting of receivables.

As a result, **profit before tax** for Q4/17 of RON 686 mn was significantly higher compared to RON 233 mn in Q4/16.

Income tax amounted to RON (44) mn, while the effective tax rate was 6% in Q4/17 (Q4/16: 31%).

Net income attributable to stockholders was RON 642 mn (Q4/16: RON 162 mn).

Cash flow from operating activities amounted to RON 1,508 mn, 41% higher yoy, driven by the higher operating result. **Free cash flow after dividends** resulted in a cash inflow of RON 664 mn (Q4/16: RON 432 mn).

Capital expenditure at RON 1,246 mn in Q4/17 was 64% higher than in Q4/16. This consisted mainly of Upstream investments at the amount of RON 962 mn in Q4/17, compared to RON 635 mn in Q4/16. Downstream investments amounted to RON 283 mn (Q4/16: RON 125 mn), of which RON 219 mn were in Downstream Oil (Q4/16: RON 120 mn).

OMV Petrom Group reported a **net cash** position of RON 2,897 mn at the end of Q4/17, up from RON 237 mn at the end of Q4/16.

January – December 2017 vs. January – December 2016

Consolidated **sales** for 2017 amounted to RON 19,435 mn, an increase of 17% compared to 2016, which was driven by higher sales from all business segments as a result of an improved economic environment. Downstream Oil represented 74% of total consolidated sales, Downstream Gas accounted for 23% and Upstream for approximately 2%.

Clean CCS Operating result increased by 92% to RON 3,273 mn, supported by a more favorable market environment, higher demand, cost discipline and the elimination of the tax on special constructions starting with 2017. Clean CCS Operating Result is stated after eliminating net special charges of RON (105) mn and inventory holding gains of RON 102 mn. **Clean CCS net income attributable to stockholders** was RON 2,488 mn, 114% higher compared to 2016 (RON 1,162 mn).

Group Operating result for the year 2017 increased by 122% to RON 3,270 mn (2016: RON 1,476 mn), driven mainly by higher sales and cost optimization.

Net financial result deteriorated to RON (366) mn loss from RON (211) mn in 2016 when positive effects from the outcome of the company's appeal to the fiscal review decision in the Kazakh branch and from the special income from clearance of a legal dispute were recognized. In addition, exchange rate movements had also a negative impact in 2017 compared with the prior year, mainly in relation to bank loans denominated in EUR.

Profit before tax improved to RON 2,904 mn. The corporate income tax amounted to RON (415) mn, while the effective tax rate was 14% for 2017.

Net income attributable to stockholders was RON 2,491 mn in 2017, compared to RON 1,043 mn in 2016.

Cash flow from operating activities amounted to RON 5,954 mn, 34% above the 2016 level, which mainly reflected the improved pricing environment and cost discipline. **Free cash flow after dividends** amounted to RON 2,666 mn (2016: RON 1,558 mn).

Capital expenditure at RON 2,969 mn in 2017 was 15% higher than in 2016. This consisted mainly of Upstream investments, in 2017 at RON 2,435 mn, compared to RON 2,119 mn in 2016. Downstream investments amounted to RON 533 mn (2016: RON 453 mn), of which RON 446 mn were in Downstream Oil (2016: RON 440 mn).

Cash flow

Q4/17	Q3/17	Q4/16	Δ% ¹	Summarized cash-flow statement (in RON mn)	2017	2016	Δ%
1,626	1,651	1,261	29	Sources of funds	6,153	4,482	37
1,508	1,470	1,070	41	Cash flow from operating activities	5,954	4,454	34
(844)	(511)	(638)	(32)	Cash flow from investing activities	(2,446)	(2,896)	16
664	959	432	54	Free cash flow	3,508	1,559	125
(526)	(55)	(239)	(120)	Cash flow from financing activities	(1,524)	(376)	(306)
0	(0)	(0)	n.m.	Effect of exchange rates on cash and cash equivalents	(1)	0	n.m.
138	904	193	(28)	Net increase in cash and cash equivalents	1,983	1,183	68
3,841	2,937	1,803	113	Cash and cash equivalents at beginning of the period	1,996	813	146
3,979	3,841	1,996	99	Cash and cash equivalents at end of the period	3,979	1,996	99
664	959	432	54	Free cash flow after dividends	2,666	1,558	71

¹ Q4/17 vs. Q4/16

Fourth quarter 2017 (Q4/17) vs. fourth quarter 2016 (Q4/16)

In Q4/17, the inflow of funds from profit before tax, adjusted for non-cash items such as depreciation and impairments, net change of provisions and other non-cash adjustments, as well as net interest and income tax paid, was RON 1,626 mn (Q4/16: RON 1,261 mn). Changes in **net working capital** generated a cash outflow of RON 117 mn (Q4/16: RON 191 mn). **Cash flow from operating activities** increased by RON 438 mn compared to Q4/16, reaching RON 1,508 mn.

In Q4/17, **cash flow from investing activities** resulted in an outflow of RON 844 mn (Q4/16: RON 638 mn) mainly related to investments in intangible assets and property, plant and equipment, in the Upstream segment.

Cash flow from financing activities implied an outflow of funds amounting to RON 526 mn (Q4/16: RON 239 mn), mainly due to repayment of loans.

Free cash flow (defined as cash flow from operating activities less cash flow from investing activities) showed an inflow of funds of RON 664 mn (Q4/16: RON 432 mn). **Free cash flow less dividend payments** resulted in a cash inflow of RON 664 mn (Q4/16: RON 432 mn).

January to December 2017 vs. January to December 2016

In 2017, the inflow of funds from profit before tax, adjusted for non-cash items such as depreciation and impairments, net change of provisions and other non-cash adjustments, as well as net interest and income tax paid was RON 6,153 mn (2016: RON 4,482 mn). Changes in **net working capital** generated a cash outflow of RON 199 mn (2016: RON 27 mn). **Cash flow from operating activities** increased by RON 1,500 mn compared to 2016, to RON 5,954 mn, reflecting the significantly higher operating result supported by the favorable crude oil price development and cost optimization.

In 2017, **cash flow from investing activities** resulted in an outflow of RON 2,446 mn (2016: RON 2,896 mn) mainly related to investments in intangible assets and property, plant and equipment, largely in the Upstream segment.

Cash flow from financing activities reflected an outflow of funds amounting to RON 1,524 mn (2016: RON 376 mn), mainly arising from the payment of dividends of RON 842 mn and the repayment of loans.

Free cash flow (defined as cash flow from operating activities less cash flow from investing activities) showed an inflow of funds of RON 3,508 mn (2016: RON 1,559 mn). **Free cash flow less dividend payments** resulted in a cash inflow of RON 2,666 mn (2016: RON 1,558 mn).

Risk management

The scope of OMV Petrom's business activity, both existing and planned, and the markets in which the company operates in naturally expose the company to significant commodity price, foreign exchange, operational and other risks. A detailed description of risks and risk management activities can be found in the 2016 Annual Report (pages 55-57).

According to the last OMV Petrom Group risk assessment exercise in September 2017, the main uncertainties which could impact the company's performance remain the commodity price risk, operational risks as well as political and regulatory risk.

Through the nature of its business of extracting, processing, transporting and selling hydrocarbons, OMV Petrom is inherently exposed to safety and environmental risks. Through the its HSSE and risk management programs, OMV Petrom remains committed to be in line with industry standards.

In terms of regulatory risk, the company is in dialogue with the Romanian authorities on topics of relevance for the industry. In the latest months, we have seen a number of fiscal and regulatory initiatives put in discussion and/or implemented. This increases legislative volatility with influence on the overall business environment.

Also refer to the Outlook section of the Director's report for more information on current risks.

Outlook for the full year 2018

Market, regulatory and fiscal environment

- ▶ For the full year 2018, OMV Petrom expects the **average Brent oil price** to be at USD 60/bbl. The Brent-Urals spread is anticipated to remain at a similar level as in 2017;
- ▶ **Refining margins** are expected to be below the 2017 level;
- ▶ Growing private consumption in Romania is estimated to support the **demand for oil products**;
- ▶ In Romania, we expect a broadly similar **demand for gas and power** as compared to 2017;
- ▶ **Taxation and royalties:**

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

- The government approved the draft Offshore Law, covering operational issues and taxation; the law has passed the Senate, a step forward in the Parliamentary approval process;
- The Ministry of Economy published a draft Royalty Law in October 2017, but has withdrawn the document at the end of December; based on the updated government program, we expect a new draft law to be issued for public consultation this year;
- The methodology for gas reference price to be used for the calculation of gas royalties was approved by the National Agency for Mineral Resources (ANRM) and entered into force as of its publication date, February 12, 2018; the reference price will be linked to CEGH gas prices in Austria;
- The new regulation on the supplementary taxation of revenues obtained from gas sales has been approved in Parliament; the tax rate is to increase from 60% to 80% for realized gas prices higher than RON 85/MWh (the increased tax rate applies only to the difference between realized prices and RON 85/MWh); the tax would become permanent; the law is expected to enter into force soon.

OMV Petrom Group

- ▶ We expect to generate a **positive free cash flow after dividends** supported by the favorable market environment;
- ▶ **CAPEX** (including capitalized exploration and appraisal) is currently anticipated to be about RON 3.7 bn, of which around 75% in Upstream;
- ▶ **Neptun Deep**: final investment decision is expected in the second half of this year;
- ▶ We aim for a **sustainable cost base** supported by ongoing efficiency programs.

Upstream

- ▶ **Production**: manage decline at around 4% yoy, not including portfolio optimization initiatives;
- ▶ **Portfolio optimisation**: continue to focus on most profitable barrels, further 50-60 fields to be divested;
- ▶ **Investments**: around RON 2.8 bn (excluding E&A), including more than 100 new wells and sidetracks, around 1,000 workovers and the Neptun Deep project;
- ▶ **Exploration**: exploration expenditures are estimated to be around RON 230 mn.

Downstream

- ▶ **The refinery utilization** rate is targeted to exceed 85%; this includes the impact of the six-week planned full-site turnaround scheduled for Q2/18;
- ▶ Relatively similar **gas sales volumes** and slightly higher **net electrical output** vs. 2017;
- ▶ Six-week **planned shutdown** for half of the **Brazi power plant** capacity in Q2/18.

Business segments

Upstream

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
1,177	1,044	917	28	Clean Operating Result before depreciation ²	4,333	3,205	35
340	428	246	38	Clean Operating Result ²	1,674	575	191
102	(96)	(87)	n.m.	Special items	(13)	(174)	93
442	332	159	179	Operating Result ²	1,661	401	314
962	675	635	51	Capital expenditure	2,435	2,119	15
119	39	57	109	Exploration expenditures	235	338	(30)
221	18	99	123	Exploration expenses	308	262	18
12.44	10.23	11.61	7	OPEX (USD/boe) ³	10.90	11.69	(7)

Q4/17	Q3/17	Q4/16	Δ% ¹	Key performance indicators	2017	2016	Δ%
15.14	15.31	15.66	(3)	Total hydrocarbon production (mn boe)	61.18	63.74	(4)
165	166	170	(3)	Total hydrocarbon production (kboe/d) ⁴	168	174	(4)
6.68	6.84	7.16	(7)	Crude oil and NGL production (mn bbl)	27.33	29.15	(6)
1.30	1.30	1.30	(0)	Natural gas production (bcm)	5.18	5.29	(2)
45.73	45.79	45.93	(0)	Natural gas production (bcf)	182.95	186.96	(2)
14.3	14.6	14.8	(3)	Total hydrocarbon sales volume (mn boe)	57.8	59.9	(3)
60.77	51.36	47.89	27	Average Urals price (USD/bbl)	53.23	42.1	26
52.61	44.05	41.55	27	Average Group realized crude price (USD/bbl)	45.77	35.58	29

¹ Q4/17 vs. Q4/16;

² Excluding intersegmental profit elimination;

³ OMV Petrom aligned the production cost definition with its industry peers. Administrative expenses and selling and distribution costs are excluded from 2017 onwards. All 2016 OPEX figures were re-calculated accordingly;

⁴ Production figures in kboe/d are rounded.

Fourth quarter 2017 (Q4/17) vs. fourth quarter 2016 (Q4/16)

- **Strong Clean Operating Result supported by higher oil and gas prices**
- **Daily production decreased by 3%, due to natural decline, marginal fields' divestment and intervention at key wells in Kazakhstan**
- **OPEX of USD 12.4/boe impacted by one-time personnel-related costs and unfavourable FX effects**

Clean Operating Result improved to RON 340 mn, mainly driven by higher prices and lower total production costs, which were partly offset by higher exploration expenses, unfavorable FX effects (USD 6% weaker against RON), lower sales volumes, as well as higher depreciation and royalties.

Reported Operating Result was positively impacted by special items, mainly with regards to the reassessment of provisions in Q4/17. Special charges, mainly in relation to the reassessment of receivables and personnel restructuring, were booked in Q4/16.

Group **production cost** (OPEX) in USD/boe was 7% higher than in Q4/16, mainly due to higher personnel costs, unfavorable FX, higher services expenses and lower production available for sale, partially offset by the elimination of the tax on special constructions and lower materials costs. In Romania, production cost in USD/boe increased by 7% to USD 12.39/boe, while in RON terms, it increased to RON 48.79/boe, 1% above the Q4/16 level. The production cost in Q4/17 was impacted by one-time personnel-related expenses following the conclusion of the Collective Labor Agreement.

Group hydrocarbon production decreased by 3% due to natural decline and divestments, as well as due to maintenance at key wells in Kazakhstan.

In **Romania**, daily hydrocarbon production was 158.6 kboe/d, down 2% yoy. Total production stood at 14.59 mn boe. Crude oil and NGL production in Romania was 6.19 mn bbl, 4% lower than in Q4/16. This mainly reflected natural decline and the closure of the Mazarine transaction. Gas production in Romania was broadly in line with Q4/16, at 8.40 mn boe. Natural decline in the main gas fields was partially offset by the positive impact from successful workover campaigns and additional production from Padina 1.

In **Kazakhstan**, total production amounted to 0.55 mn boe, 28% lower compared to the same period of 2016, mainly due to intervention at key wells.

Group hydrocarbon **sales volumes** decreased by 3% compared to Q4/16, with lower sales both in Romania and Kazakhstan.

Exploration expenses increased to RON 221 mn due to higher write-offs in Q4/17, mainly of one unsuccessful onshore exploration well.

Investments in Upstream activities were 51% above the Q4/16 level, mainly due to the higher number of wells drilled and workovers performed, facilities projects as well as due to the Neptun project.

Exploration expenditures increased to RON 119 mn, due to higher onshore and offshore drilling activities.

January – December 2017 vs. January – December 2016

Clean Operating Result increased by 191% to RON 1,674 mn, mainly driven by higher prices, lower production costs and depreciation, partly offset by lower sales volumes, higher exploration expenses and royalties.

Reported Operating Result amounted to RON 1,661 mn in 2017, impacted mainly by the reassessment of provisions, while in 2016 this was mostly due to special charges related to personnel restructuring, write-offs of exploration assets and the reassessment of receivables.

Group **production cost** was USD 10.90/boe, 7% down compared to the 2016 level, mainly due to the elimination of the tax on special constructions, lower material and services costs, downsizing of the organization, partly offset by lower production available for sale. Production cost in Romania was USD 10.89/boe, down 8% vs 2016; in RON terms, it decreased by 8% to RON 44.06/boe.

Group daily hydrocarbon production was 167.6 kboe/d (Romania: 160.6 kboe/d, down 3% yoy). Group oil, gas and NGL **production** in 2017 totaled 61.18 mn boe, lower than the 2016 level as a result of natural decline and divestments, as well as due to maintenance at key wells in Kazakhstan. In **Romania**, the daily production declined by 3% compared to the previous year; total oil, gas and NGL production amounted to 58.63 mn boe. Domestic crude oil production was 24.99 mn bbl, 5% down compared to the 2016 level due to natural decline, closure of the Mazarine transaction as well as planned maintenance and surface works (both onshore and offshore). Domestic gas production was 33.64 mn boe, 2% lower compared to the 2016 level due to natural decline and planned surface works, partially compensated by the successful workover campaign. Oil and gas production in **Kazakhstan** decreased by 17% to 2.55 mn boe, due to natural decline and interventions at key wells.

Group hydrocarbon **sales volumes** decreased by 3% compared to 2016 due to lower sales volumes both in Kazakhstan and Romania.

In 2017, we finalized the drilling of 69 new wells and sidetracks, thereof 5 exploration wells.

Exploration expenses increased to RON 308 mn in 2017 (2016: RON 262 mn) due to higher write-offs.

Investments in Upstream activities (RON 2,435 mn) represented 82% of total Group CAPEX for 2017, being 15% higher than in 2016, as a result of intensified drilling and workover activities, investments in surface facilities and for the Neptun project.

Exploration expenditures decreased to RON 235 mn mainly due to lower exploration activities in the Neptun block.

As of December 31, 2017 the total **proved** oil and gas **reserves** in OMV Petrom Group's portfolio amounted to 566 mn boe (of which 542 mn boe in Romania), while the proved and probable oil and gas reserves amounted to 839 mn boe (of which 792 mn boe in Romania). The Group's three-year average **Reserve Replacement Rate** decreased to 35% in 2017 (2016: 37%), and in Romania it decreased to 29% (2016: 32%). For the single year 2017, the Group's Reserves Replacement Rate was 34% (2016: 36%), while in Romania it was 33% (2016: 29%).

Downstream

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
557	849	479	16	Clean CCS Operating Result before depreciation ²	2,524	1,866	35
360	651	292	23	Clean CCS Operating Result ²	1,753	1,122	56
319	540	288	11	thereof Downstream Oil	1,533	1,112	38
41	112	5	n.m.	thereof Downstream Gas	220	11	n.m.
43	(76)	(103)	n.m.	Special items	(90)	51	n.m.
138	(5)	106	30	CCS effect: Inventory holding gains/(losses) ²	104	120	(13)
540	570	295	83	Operating Result	1,768	1,293	37
283	135	125	127	Capital expenditure	533	453	18

Q4/17	Q3/17	Q4/16	Δ% ¹	Key performance indicators Downstream Oil	2017	2016	Δ%
6.16	8.75	7.14	(14)	Indicator refining margin (USD/bbl) ³	7.75	6.98	11
1.10	1.15	1.15	(4)	Refining input (mn t) ⁴	4.48	4.22	6
91	93	96	(5)	Refinery utilization rate (%)	93	89	5
1.26	1.40	1.27	(1)	Total refined product sales (mn t)	5.07	4.93	3
0.67	0.78	0.65	4	thereof retail sales volumes (mn t) ⁵	2.70	2.56	6
				Key performance indicators Downstream Gas			
13.41	10.70	14.17	(5)	Gas sales volumes (TWh)	51.40	50.36	2
11.13	9.09	12.41	(10)	thereof to third parties (TWh)	45.30	43.86	3
1.05	0.75	0.82	29	Net electrical output (TWh)	2.71	2.93	(7)
215	230	184	17	OPCOM spot average electricity base load price (RON/MWh)	220	150	47

¹ Q4/17 vs. Q4/16;

² Current cost of supply (CCS): the Clean CCS Operating Result eliminates special items and inventory holding gains/losses (CCS effects) resulting from Downstream Oil;

³ The actual refining margins realized by OMV Petrom may vary from the indicator refining margin due to different crude slate, product yield and operating conditions;

⁴ Figures include crude and semi-finished products, in line with the OMV Group reporting standard;

⁵ Retail sales volumes refer to sales via Group's filling stations in Romania, Bulgaria, Serbia and Moldova.

Fourth quarter 2017 (Q4/17) vs. fourth quarter 2016 (Q4/16)

- ▶ **Downstream Oil: Clean CCS Operating Result increased by 11% reflecting favorable economic environment**
- ▶ **Retail volumes up 4%**
- ▶ **Downstream Gas: good result, benefitting from favorable power market conditions**
- ▶ **Brazi power plant resumed operations at full capacity**
- ▶ **Dorobantu wind park divestment was finalized**

Clean CCS Operating Result increased to RON 360 mn in Q4/17 from RON 292 mn in Q4/16, on improved contribution from both Downstream Oil and Downstream Gas. **Reported Operating Result** was RON 540 mn, reflecting special income of RON 43 mn and inventory holding gains of RON 138 mn, while the Q4/16 figure of RON 295 mn reflected net special charges of RON (103) mn and inventory holding gains of RON 106 mn.

In Q4/17, **Downstream Oil Clean CCS Operating Result** increased to RON 319 mn, supported by higher retail sales.

OMV Petrom indicator refining margin decreased yoy by USD 0.98/bbl to USD 6.16/bbl in Q4/17, mainly due to negative impact from the increased crude oil price. The **refinery utilization rate** was 91% (96% in Q4/16, mainly reflecting the temporarily higher throughput run after the refinery turnaround in Q2/16).

Total **refined product sales** were marginally lower compared to Q4/16. Group retail sales volumes, which accounted for 53% of total refined product sales, increased by 4% yoy as a result of higher demand. The Retail result was also supported by the increased non-oil business contribution. Q4/17 non-retail sales volumes decreased by 6% yoy as a result of sales channels optimization.

Downstream Gas Clean Operating Result increased to RON 41 mn in Q4/17, from RON 5 mn in Q4/16 on improved performance of the power business, enabled by better market conditions.

As per OMV Petrom's estimates, national **gas** demand decreased by around 9% yoy due to the milder winter. On the Romanian centralized markets, the weighted average price¹ of natural gas for transactions closed in Q4/17 (12 TWh²), with delivery until end-2018, was RON 84/MWh².

In Q4/17, OMV Petrom's gas sales volume decreased by 5% yoy, the higher offtake by the Brazi power plant and by end-customers partly counterbalancing the lower sales volumes to wholesalers. On the centralized markets, OMV Petrom sold 3.1 TWh in Q4/17, with delivery until end-2018, at an average price¹ in line with the market price.

At the end of Q4/17, OMV Petrom's storage level was 2.1 TWh and in addition 0.3 TWh stored gas has been contracted from the market (Q4/16: 2.5 TWh, thereof 0.6 TWh already contracted for sale with delivery in Q1/17).

According to preliminary data available from the grid operator, national **electricity** demand increased by 5%, while gross production was lower by 2% in Q4/17 yoy on the basis of low hydro power generation; the net export balance decreased accordingly.

The Brazi power plant resumed full commercial operations in mid-November, generating a 30% higher net electrical output in Q4/17 vs. Q4/16, driven by higher spark spreads. The Dorobantu wind park delivered a 6% lower output in Q4/17 yoy and received around 37,200 green certificates (Q4/16: around 39,400 green certificates). Divestment of the Dorobantu wind park was finalized at the end of 2017, as planned.

Total **Downstream investments** amounted to RON 283 mn (Q4/16: RON 125 mn), of which RON 219 mn were in Downstream Oil (Q4/16: RON 120 mn). Investments in Downstream Oil were mostly directed to the Polyfuel growth project and the planned full-site refinery turnaround in 2018. In Downstream Gas, investments were directed to the acquisition of the second turbine transformer and to preparations for the 2018 planned shutdown of the Brazi power plant.

January – December 2017 vs. January – December 2016

Clean CCS Operating Result increased to RON 1,753 mn in 2017 (2016: RON 1,122 mn) on improved contribution from both Downstream Oil and Downstream Gas. Net special charges amounted to RON (90) mn (2016: RON 51 mn as special income) and CCS inventory holding gains totaled RON 104 mn (2016: RON 120 mn). **Reported Operating Result** came in at RON 1,768 mn.

Clean CCS Operating Result in Downstream Oil increased to RON 1,533 mn compared to RON 1,112 mn in 2016, largely driven by better refining margin, the low base effect of prior year refinery turnaround, and increased demand.

In 2017, the OMV Petrom indicator refining margin increased vs. 2016 by USD 0.77/bbl to USD 7.75/bbl, as a result of an increase in product quotations that fully offset the higher cost of crude oil. The **refinery utilization rate** was higher yoy (93% in 2017 compared to 89% in 2016, when it was impacted by the one-month turnaround).

Group **total refined product sales** amounted to 5.07 mn t in 2017, 3% higher compared to 2016, mainly reflecting increased domestic demand. Group retail sales were 6% higher yoy, reaching 2.70 mn t, as a result of a positive trend in the domestic market demand. Group non-retail sales stood at a similar level with 2016, as an effect of capitalised market opportunities offset by increased competition.

Downstream Gas Clean Operating Result increased to RON 220 mn in 2017, from RON 11 mn in 2016, on improved performance of the power business, supported by strong spark spreads and by the estimated insurance revenues related to the Brazi power plant. The total estimated³ insurance revenues related to the Brazi power plant booked in 2017 amounted to RON 161 mn, of which RON 24 mn represented a special item.

¹ The gas price for transactions on the Romanian centralized markets refers to various products in terms of storage costs, flexibility and timing;

² OMV Petrom estimates based on available public information;

³ The discussions with the insurer are still in progress;

As per OMV Petrom's estimates, national **gas** consumption increased by around 5% as compared to 2016, while import gas share was slightly lower. On the Romanian centralized markets, the weighted average price⁴ of natural gas for transactions closed in 2017 (66.4 TWh⁵), with delivery until end-2018, was RON 75/MWh⁵.

OMV Petrom's gas sales volume increased by 2% yoy, mainly due to higher sales to wholesalers, which compensated the lower offtake by the Brazi power plant. On the centralized markets, OMV Petrom sold 16.8 TWh in 2017, with delivery until end-2018, at an average price⁴ in line with the market price.

According to preliminary data available from the grid operator, national **electricity** demand increased by 4%, while gross production remained stable vs. 2016, leading to a decrease in the net export balance.

The Brazi power plant was partially unavailable throughout 2017 due to malfunctions of two transformers. The plant generated a net electrical output of 2.59 TWh (2016: 2.83 TWh), covering approximately 4% of Romania's electricity production (2016: 5%).

The Dorobantu wind park generated a net electrical output of 0.10 TWh in 2017 (2016: 0.08 TWh), receiving around 143,200 green certificates (2016: around 127,600 green certificates).

Downstream investments amounted to RON 533 mn (2016: RON 453 mn). Downstream Oil investments amounted to RON 446 mn (2016: RON 440 mn), mainly reflecting the Polyfuel growth project and investments related to preparations for the 2018 full-site refinery turnaround. In Downstream Gas, main investments referred to the acquisitions of the two turbine transformers and the preparations of the 2018 planned shutdown of the Brazi power plant.

⁴ The gas price for transactions on the Romanian centralized markets refers to various products in terms of storage costs, flexibility and timing;

⁵ OMV Petrom estimates based on available public information.

Group preliminary condensed consolidated financial statements (unaudited)

Consolidated income statement (unaudited)

Q4/17	Q3/17	Q4/16	in RON mn	2017	2016
5,141.56	5,032.41	4,693.63	Sales revenues	19,435.08	16,646.60
55.38	141.69	70.85	Other operating income	363.57	488.14
1.53	3.23	(0.21)	Net income/(loss) from equity-accounted investments	8.36	6.93
5,198.47	5,177.33	4,764.27	Total revenues and other income	19,807.01	17,141.67
(1,702.74)	(1,837.20)	(1,601.99)	Purchases (net of inventory variation)	(6,697.53)	(5,304.37)
(868.52)	(709.43)	(911.55)	Production and operating expenses	(3,161.57)	(3,588.82)
(237.46)	(211.65)	(222.04)	Production and similar taxes	(929.38)	(903.88)
(909.18)	(864.69)	(803.58)	Depreciation, amortization and impairment charges	(3,345.37)	(3,314.10)
(545.25)	(507.91)	(570.93)	Selling, distribution and administrative expenses	(1,971.04)	(1,899.67)
(220.58)	(17.67)	(99.13)	Exploration expenses	(308.28)	(262.19)
105.39	(155.87)	(219.81)	Other operating expenses	(123.49)	(392.44)
820.13	872.91	335.24	Operating Result	3,270.35	1,476.20
25.60	28.90	3.15	Interest income	92.70	172.78
(132.17)	(126.73)	(82.92)	Interest expenses	(398.76)	(357.24)
(27.77)	(13.05)	(22.65)	Other financial income and expenses	(60.17)	(26.81)
(134.34)	(110.88)	(102.42)	Net financial result	(366.23)	(211.27)
685.79	762.03	232.82	Profit before tax	2,904.12	1,264.93
(44.17)	(123.85)	(72.86)	Taxes on income	(414.81)	(227.28)
641.62	638.18	159.96	Net income for the period	2,489.31	1,037.65
641.97	638.55	161.67	thereof attributable to stockholders of the parent	2,490.81	1,043.21
(0.35)	(0.37)	(1.71)	thereof attributable to non-controlling interests	(1.50)	(5.56)
0.0113	0.0113	0.0029	Basic earnings per share (RON)	0.0440	0.0184

Consolidated statement of comprehensive income (unaudited)

Q4/17	Q3/17	Q4/16	in RON mn	2017	2016
641.62	638.18	159.96	Net income for the period	2,489.31	1,037.65
11.44	9.14	(2.52)	Exchange differences from translation of foreign operations	41.53	(10.44)
-	-	-	Realized gains on hedges recycled to income statement	-	(14.21)
11.44	9.14	(2.52)	Total of items that may be reclassified ("recycled") subsequently to the income statement	41.53	(24.65)
10.16	-	15.78	Re-measurement gains on defined benefit plans	10.16	15.78
10.16	-	15.78	Total of items that will not be reclassified ("recycled") subsequently to the income statement	10.16	15.78
0.49	5.06	(22.03)	Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	25.16	(8.33)
(1.63)	-	(2.52)	Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(1.63)	(2.52)
(1.14)	5.06	(24.55)	Total income taxes relating to components of other comprehensive income	23.53	(10.85)
20.46	14.20	(11.29)	Other comprehensive income/(loss) for the period, net of tax	75.22	(19.72)
662.08	652.38	148.67	Total comprehensive income for the period	2,564.53	1,017.93
662.34	651.36	155.04	thereof attributable to stockholders of the parent	2,559.94	1,025.91
(0.26)	1.02	(6.37)	thereof attributable to non-controlling interests	4.59	(7.98)

Consolidated statement of financial position (unaudited)

in RON mn	December 31, 2017	December 31, 2016
Assets		
Intangible assets	2,611.13	2,535.87
Property, plant and equipment	27,143.50	28,325.55
Investments in associated companies	49.62	43.69
Other financial assets	2,317.15	2,592.93
Other assets	59.94	78.88
Deferred tax assets	1,545.35	1,552.27
Non-current assets	33,726.69	35,129.19
Inventories	2,082.80	1,950.01
Trade receivables	1,513.03	1,540.04
Other financial assets	243.96	211.07
Other assets	507.83	314.88
Cash and cash equivalents	3,979.05	1,996.00
Current assets	8,326.67	6,012.00
Assets held for sale	5.43	272.92
Total assets	42,058.79	41,414.11
Equity and liabilities		
Share capital	5,664.41	5,664.41
Reserves	22,815.26	21,104.94
Stockholders' equity	28,479.67	26,769.35
Non-controlling interests	(58.64)	(63.16)
Total equity	28,421.03	26,706.19
Provisions for pensions and similar obligations	224.84	224.55
Interest-bearing debts	558.68	1,140.70
Provisions for decommissioning and restoration obligations	7,274.81	7,923.46
Other provisions	274.24	620.84
Other financial liabilities	160.51	177.25
Other liabilities	16.08	-
Non-current liabilities	8,509.16	10,086.80
Trade payables	2,805.44	2,289.75
Interest-bearing debts	328.62	409.62
Income tax liabilities	80.70	130.57
Other provisions and decommissioning	904.33	729.27
Other financial liabilities	371.25	220.29
Other liabilities	638.26	705.80
Current liabilities	5,128.60	4,485.30
Liabilities associated with assets held for sale	-	135.82
Total equity and liabilities	42,058.79	41,414.11

Condensed consolidated statement of changes in equity (unaudited)

in RON mn	Share capital	Revenue reserves	Other reserves ¹	Treasury shares	Stockholders' equity	Non-controlling interests	Total Equity
January 1, 2017	5,664.41	21,116.26	(11.30)	(0.02)	26,769.35	(63.16)	26,706.19
Net income/(loss) for the period	-	2,490.81	-	-	2,490.81	(1.50)	2,489.31
Other comprehensive income for the period	-	8.53	60.60	-	69.13	6.09	75.22
Total comprehensive income for the period	-	2,499.34	60.60	-	2,559.94	4.59	2,564.53
Dividend distribution	-	(849.66)	-	-	(849.66)	(0.07)	(849.73)
Other increases	-	-	0.04	-	0.04	0.00	0.04
December 31, 2017	5,664.41	22,765.94	49.34	(0.02)	28,479.67	(58.64)	28,421.03

in RON mn	Share capital	Revenue reserves	Other reserves ¹	Treasury shares	Stockholders' equity	Non-controlling interests	Total Equity
January 1, 2016	5,664.41	20,059.80	18.94	(0.02)	25,743.13	(55.10)	25,688.03
Net income/(loss) for the period	-	1,043.21	-	-	1,043.21	(5.56)	1,037.65
Other comprehensive income/(loss) for the period	-	13.25	(30.55)	-	(17.30)	(2.42)	(19.72)
Total comprehensive income/(loss) for the period	-	1,056.46	(30.55)	-	1,025.91	(7.98)	1,017.93
Dividend distribution	-	-	-	-	-	(0.08)	(0.08)
Other increases	-	-	0.31	-	0.31	-	0.31
December 31, 2016	5,664.41	21,116.26	(11.30)	(0.02)	26,769.35	(63.16)	26,706.19

¹ Other reserves contain mainly exchange rate differences from the translation of foreign operations, reserves from business combinations in stages, unrealized gains and losses from hedges, exchange differences on loans considered net investment in a foreign operation and land for which ownership was obtained but was not included in share capital.

Condensed consolidated statement of cash flows (unaudited)

Q4/17	Q3/17	Q4/16	Summarized statement of cash flows (in RON mn)	2017	2016
685.79	762.03	232.82	Profit before tax	2,904.12	1,264.93
(153.90)	59.83	235.21	Net change in provisions	(92.96)	26.71
(2.32)	(11.99)	(0.69)	Gains on the disposal of non-current assets	(21.58)	(9.01)
1,114.60	864.38	866.35	Depreciation, amortization and impairments including write-ups	3,580.35	3,463.68
(8.50)	0.68	(19.94)	Net interest (paid)/received	(27.38)	(62.88)
(111.32)	(116.76)	(70.70)	Tax on profit paid	(447.04)	(204.87)
101.21	92.49	18.02	Other non-monetary adjustments	257.52	3.36
1,625.56	1,650.66	1,261.07	Sources of funds ¹	6,153.03	4,481.92
63.00	(184.35)	43.09	(Increase)/Decrease in inventories	(178.96)	8.56
(350.73)	(116.61)	(166.73)	Increase in receivables	(212.94)	(62.02)
170.59	120.29	(67.28)	Increase/(Decrease) in liabilities	193.20	25.97
1,508.42	1,469.99	1,070.15	Cash flow from operating activities	5,954.33	4,454.43
(924.14)	(582.70)	(651.59)	Intangible assets and property, plant and equipment	(2,606.72)	(2,917.44)
-	-	(0.67)	Investments and other financial assets	-	(0.67)
7.06	12.70	14.26	Proceeds from sale of non-current assets	28.21	22.60
72.94	59.32	-	Proceeds from the sale of subsidiaries and businesses, net of cash disposed	132.26	-
(844.14)	(510.68)	(638.00)	Cash flow from investing activities	(2,446.25)	(2,895.51)
(525.72)	(55.03)	(238.94)	Decrease in borrowings	(682.29)	(375.29)
(0.57)	(0.37)	(0.09)	Dividends paid	(842.18)	(0.59)
(526.29)	(55.40)	(239.03)	Cash flow from financing activities	(1,524.47)	(375.88)
0.27	(0.04)	(0.05)	Effect of exchange rate changes on cash and cash equivalents	(0.56)	0.40
138.26	903.87	193.07	Net increase in cash and cash equivalents	1,983.05	1,183.44
3,840.79	2,936.92	1,802.93	Cash and cash equivalents at beginning of period	1,996.00	812.56
3,979.05	3,840.79	1,996.00	Cash and cash equivalents at end of period	3,979.05	1,996.00
664.28	959.31	432.15	Free cash flow	3,508.08	1,558.92
663.71	958.94	432.06	Free cash flow after dividends	2,665.90	1,558.33

¹ Representing cash generated from operating activities before working capital movements

Selected notes to the preliminary condensed consolidated financial statements (unaudited)

Legal principles

The preliminary, condensed, unaudited consolidated financial statements for 2017 have been prepared in line with the accounting policies that will be used in preparing the 2017 annual consolidated financial statements, which are consistent with those used in preparation of the 2016 annual consolidated financial statements, except as described herein. The audited annual consolidated financial statements will be published in March 2018.

The preliminary condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2016.

The preliminary condensed consolidated financial statements for 2017 included in this report are unaudited and an external limited review by an auditor was not performed.

The preliminary condensed consolidated financial statements for 2017 have been prepared in million RON (RON mn, RON 1,000,000). Accordingly there may be rounding differences.

General accounting policies

The following amendments to standards have been effective since January 1, 2017:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses;
- Amendments to IAS 7 Disclosure Initiative;

At the time of the preparation of these preliminary condensed consolidated financial statements, the EU endorsement was still pending for the following amendments:

- Annual Improvements to IFRSs 2014–2016 Cycle.

None of these changes had a material impact on the preliminary condensed consolidated financial statements.

New Income Statement structure

OMV Petrom's consolidated income statement has been restructured in line with the industry's best practice in order to better reflect the operations of the Group and enhance transparency for investors.

The main changes to the Consolidated Income Statement are:

1. **Net income/(loss) from equity-accounted investments** is now part of **"Total revenues and other income"**.
 - Previously, net income/(loss) from equity accounted investments was included within the net financial result;
 - Starting from Q1/17, the net income/(loss) from equity accounted investments is included in "Total revenues and other income" and contributes to the "Operating result". The **"Operating result"** includes the former indicator "Earnings Before Interest and Taxes" and the net result from equity-accounted investments. Thus, the "Operating result" reflects the operational result of OMV Petrom Group including contributions from associates (OMV Petrom Global Solutions SRL).
2. The line items **"purchases (net of inventory variation)"**, **"production and operating expenses"** and **"production and similar taxes"** are now shown separately.
 - These items were previously disclosed mainly within the line "production cost of sales";
 - Purchases (net of inventory variation): this line item includes cost of goods and materials that are used for conversion into finished or intermediary products, as well as goods purchased for reselling. This position also includes inventory changes and write-offs;
 - Production and operating expenses: this line item contains all costs incurred when manufacturing a good or providing a service;
 - Production and similar taxes: this line item contains production taxes, royalties and other taxes related to hydrocarbon production.
3. **"Selling, distribution and administrative expenses"** are now combined and reported in one line item.
 - These costs were previously disclosed as part of selling expenses and administrative expenses;

- The new selling, distribution and administrative expenses line item includes all costs directly related to marketing and selling of products and administrative costs and also dealer commission costs which were previously presented as deduction from sales.
4. **“Depreciation, amortization and impairment charges”** are now disclosed as a separate line item.
- Previously, “depreciation, amortization and impairment charges” were included in “production cost of sales”, “selling expenses” and “administrative expenses”;
 - Impairments related to exploration assets remain part of “exploration expenses”.

For comparability reasons, figures of previous periods were presented in the same structure.

Changes in the consolidated Group

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

On April 3, 2017 was approved the sale of 100% shares in Tasbulat LLP from Tasbulat BVI to OMV Petrom S.A.. In December 2017, Tasbulat BVI was liquidated.

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

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

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

Seasonality and cyclicity

Seasonality is of particular significance in Downstream.

Consumption of natural gas, electricity, heat and certain oil products is seasonal and is significantly affected by climatic conditions. Natural gas consumption is higher during the cold winter months. Electricity consumption is also generally higher during winter as a supplementary measure to produce heat and due to fewer daylight hours and the need for more artificial lighting. In addition, during very hot summer periods, the increased usage of air cooling systems can also significantly increase electricity consumption. Natural gas sales and electricity generation may also be significantly affected by climatic conditions, such as unusually hot or cold temperatures. Consequently, the results reflect the seasonal character of the demand for natural gas and electricity, and may be influenced by variations in climatic conditions.

Accordingly, the results of operations of the Downstream Gas business segment and, to a lesser extent, the Downstream Oil business segment, as well as the comparability of results over different periods, may be affected by changes in weather conditions.

In addition to the preliminary condensed consolidated financial statements and notes, further information on main factors affecting the preliminary condensed consolidated financial statements as of and for the year ended December 31, 2017 is given as part of the description of OMV Petrom Group's Business Segments in the Directors' Report.

Exchange rates

OMV Petrom uses the National Bank of Romania (NBR) exchange rates in its consolidation process. Income statements of foreign subsidiaries are translated to RON using the average of daily exchange rates published by the National Bank of Romania, detailed below.

Statements of the financial position of foreign subsidiaries are translated to RON using the closing rate method based on exchange rates published by the National Bank of Romania, and are detailed below.

Q4/17	Q3/17	Q4/16	Δ% ¹	NBR FX rates	2017	2016	Δ%
4.617	4.581	4.507	2	Average EUR/RON FX rate	4.568	4.490	2
3.923	3.901	4.175	(6)	Average USD/RON FX rate	4.051	4.057	0
4.660	4.599	4.541	3	Closing EUR/RON FX rate	4.660	4.541	3
3.892	3.898	4.303	(10)	Closing USD/RON FX rate	3.892	4.303	(10)

¹ Q4/17 vs. Q4/16

Notes to the income statement

Income tax

Q4/17	Q3/17	Q4/16	In RON mn	2017	2016
44.17	123.85	72.86	Taxes on income	414.81	227.28
59.60	111.80	95.54	Current taxes	406.72	228.55
(15.43)	12.05	(22.68)	Deferred taxes – expense / (revenue)	8.09	(1.27)
6%	16%	31%	Group effective tax rate	14%	18%

Notes to the statement of financial position

Commitments

As at December 31, 2017 OMV Petrom Group's commitments for investments amounted to RON 978 mn (December 31, 2016: RON 712 mn), mainly relating to exploration and production activities in Upstream.

Inventories

During the year ended December 31, 2017, there were no material write-downs of inventories.

Equity

At the Annual General Meeting of Shareholders held on April 25, 2017, the shareholders of OMV Petrom S.A. approved the distribution of dividends for the financial year 2016 for the gross amount of RON 850 mn (gross dividend per share of RON 0.015). Payment of the dividends started on June 12, 2017 and was largely completed in Q2/17. The total number of own shares held by the Company as of December 31, 2017 amounted to 204,776 (December 31, 2016: 204,776).

Financial liabilities

As of December 31, 2017, short and long-term interest bearing debts and finance leases amounted to RON 1,082 mn (December 31, 2016: RON 1,759 mn), thereof RON 195 mn liabilities for finance leases (December 31, 2016: RON 209 mn).

Fair value measurement

Financial instruments recognized at fair value are disclosed according to the following fair value measurement hierarchy:

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.

Financial instruments on asset side (in RON mn)	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-	-	-	-	-
Other derivatives	-	7.86	-	7.86	-	0.05	-	0.05
Total	-	7.86	-	7.86	-	0.05	-	0.05

Financial instruments on liability side (in RON mn)	December 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-	-	-	-	-
Liabilities on other derivatives	-	(56.96)	-	(56.96)	-	(9.41)	-	(9.41)
Total	-	(56.96)	-	(56.96)	-	(9.41)	-	(9.41)

There were no transfers between levels of the fair value hierarchy. There were no changes in the fair value measurement techniques for assets and liabilities that are measured at fair value.

Interest-bearing debts amounting to RON 887 mn (December 31, 2016: RON 1,550 mn) are valued at amortized cost. The estimated fair value of these liabilities was RON 894 mn (December 31, 2016: RON 1,538 mn). The carrying amount of all other financial assets and financial liabilities that were measured at amortized cost approximates their fair value.

Segment reporting

Intersegmental sales

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
2,103.23	1,807.83	1,839.74	14	Upstream	7,758.41	6,866.90	13
54.00	56.72	66.17	(18)	Downstream ²	232.98	253.03	(8)
20.55	20.09	21.76	(6)	thereof Downstream Oil	80.04	76.18	5
63.29	57.16	76.91	(18)	thereof Downstream Gas	264.07	292.87	(10)
(29.84)	(20.53)	(32.50)	8	thereof intersegmental elimination Downstream Oil and Downstream Gas	(111.13)	(116.02)	4
49.43	46.74	47.84	3	Corporate and Other	173.29	169.37	2
2,206.66	1,911.29	1,953.75	13	Total	8,164.68	7,289.30	12

¹ Q4/17 vs. Q4/16;

² Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

Sales to external customers

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
111.29	145.54	123.44	(10)	Upstream	458.30	436.01	5
5,022.06	4,877.80	4,559.43	10	Downstream	18,943.17	16,172.79	17
3,746.32	3,930.90	3,369.31	11	thereof Downstream Oil	14,470.20	12,054.69	20
1,275.74	946.90	1,190.12	7	thereof Downstream Gas	4,472.97	4,118.10	9
8.21	9.07	10.76	(24)	Corporate and Other	33.61	37.80	(11)
5,141.56	5,032.41	4,693.63	10	Total	19,435.08	16,646.60	17

¹ Q4/17 vs. Q4/16

Total sales (not consolidated)

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
2,214.52	1,953.37	1,963.18	13	Upstream	8,216.71	7,302.91	13
5,076.06	4,934.52	4,625.60	10	Downstream ²	19,176.15	16,425.82	17
3,766.87	3,950.99	3,391.07	11	thereof Downstream Oil	14,550.24	12,130.87	20
1,339.03	1,004.06	1,267.03	6	thereof Downstream Gas	4,737.04	4,410.97	7
(29.84)	(20.53)	(32.50)	8	thereof intersegmental elimination Downstream Oil and Downstream Gas	(111.13)	(116.02)	4
57.64	55.81	58.60	(2)	Corporate and Other	206.90	207.17	(0)
7,348.22	6,943.70	6,647.38	11	Total	27,599.76	23,935.90	15

¹ Q4/17 vs. Q4/16;

² Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

Segment and Group profit

Q4/17	Q3/17	Q4/16	Δ% ¹	in RON mn	2017	2016	Δ%
442.33	332.20	158.55	179	Operating Result Upstream	1,661.34	400.99	314
540.47	569.92	294.98	83	Operating Result Downstream	1,767.65	1,292.90	37
507.06	523.02	298.78	70	thereof Operating Result Downstream Oil	1,681.34	1,289.45	30
33.41	46.90	(3.8)	n.m.	thereof Operating Result Downstream Gas	86.31	3.45	n.m.
(28.26)	(18.52)	(27.69)	(2)	Operating Result Corporate and Other	(76.25)	(64.90)	(17)
954.54	883.60	425.84	124	Operating Result segment total	3,352.74	1,628.99	106
(134.41)	(10.69)	(90.60)	(48)	Consolidation: Elimination of intersegmental profits	(82.39)	(152.79)	46
820.13	872.91	335.24	145	OMV Petrom Group Operating Result	3,270.35	1,476.20	122
(134.34)	(110.88)	(102.42)	(31)	Net financial result	(366.23)	(211.27)	(73)
685.79	762.03	232.82	195	OMV Petrom Group profit before tax	2,904.12	1,264.93	130

¹ Q4/17 vs. Q4/16

Assets¹

in RON mn	December 31, 2017	December 31, 2016
Upstream	23,083.23	23,690.47
Downstream	6,211.02	6,689.54
thereof Downstream Oil	4,993.73	5,217.79
thereof Downstream Gas	1,217.29	1,471.75
Corporate and Other	460.38	481.41
Total	29,754.63	30,861.42

¹ Segment assets consist of intangible assets and property, plant and equipment

Other notes**Significant transactions with related parties**

Significant transactions in form of supplies of goods and services take place on a constant and regular basis with companies from OMV Group. The most significant are disclosed in the Appendix 2.

Material changes in contingencies

In relation to the Bulgarian Commission for Protection of Competition (CPC) investigation initiated in 2016, on 30 March 2017 CPC terminated the proceedings against OMV Bulgaria OOD and the other companies without finding any violation, on the condition that the commitments offered by the parties are implemented. OMV Bulgaria OOD designed and implemented internal regulations and measures in order to comply with the commitments.

During Q2/17, the tax audit of OMV Petrom SA, having the oil and gas royalties for the period 2011–2015 as its scope, was closed without any findings.

Subsequent events

On January 9, 2018 the Supervisory Board of OMV Petrom S.A. appointed Christina Verchere as the new President of the Executive Board and Chief Executive Officer (CEO) of OMV Petrom. In line with OMV Petrom's articles of association, the appointment has been made for the remaining term of the mandate granted to Mariana Gheorghe, until April 16, 2019. Christina Verchere accepted her appointment and she will assume the position depending on her availability, at the latest with effect from May 21, 2018. Mariana Gheorghe waived her mandate as President of the Executive Board and CEO of OMV Petrom S.A. Her waiver shall become effective on the date when her successor takes office, but in any event on May 20, 2018, at the latest.

Declaration of the management

We confirm to the best of our knowledge that the preliminary and unaudited condensed consolidated financial statements for the year ended December 31, 2017 give a true and fair view of OMV Petrom Group's assets, liabilities, financial position and profit or loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the financial year 2017 and their impact on the preliminary condensed consolidated financial statements, as well as a description of the principal risks and uncertainties.

Bucharest, February 21, 2018

The Executive Board

Mariana Gheorghe
Chief Executive Officer
President of the Executive Board



Stefan Waldner
Chief Financial Officer
Member of the Executive Board



Peter Zeilinger
Member of the Executive Board
Upstream



Lacramioara Diaconu-Pintea
Member of the Executive Board
Downstream Gas



Neil Anthony Morgan
Member of the Executive Board
Downstream Oil



Further information

Abbreviation and definitions

bbl	barrel(s), i.e. 159 liters
bcf	billion cubic feet; 1 bcm = 35.3147 bcf for Romania or 34.7793 bcf for Kazakhstan
boe; kboe; kboe/d	barrels of oil equivalent; thousand barrels of oil equivalent; kboe per day
bn	billion
bcm	billion cubic meters
capital employed	equity including minorities plus net debt
CEO	Chief Executive Officer
Co&O	Corporate and Other
CAPEX	Capital expenditure
CCS / CCS effects / Inventory holding gains / (losses)	Current cost of supply
	Inventory holding gains and losses represent the difference between the cost of sales calculated using the current cost of supply and the cost of sales calculated using the weighted average method after adjusting for any changes in valuation allowances, in case the net realizable value of the inventory is lower than its cost.
	In volatile energy markets, measurement of the costs of petroleum products sold based on historical values (e.g. weighted average cost) can have distorting effect on reported results (Operating Result, Net income, etc.).
	The amount disclosed as CCS effects represents the difference between the charge to the income statement for inventory on a weighted average basis (adjusted for the change in valuation allowances related to realizable value) and the charge based on the current cost of supply.
The current cost of supply is calculated monthly using data from our refinery's supply and production systems at Downstream Oil level.	
CEGH	Central European Gas Hub
Clean CCS Operating Result	Operating Result adjusted for special items and CCS effects. Group clean CCS Operating Result is calculated by adding the clean CCS Operating Result of Downstream Oil, the clean Operating Result of the other segments and the reported consolidation effect adjusted for changes in valuation allowances, in case the net realizable value of the inventory is lower than its cost.
Clean CCS net income attributable to stockholders	Net income attributable to stockholders, adjusted for the after tax effect of special items and CCS
Clean CCS EPS	Clean CCS Earnings per share = Clean CCS net income attributable to stockholders divided by weighted number of shares
Clean CCS ROACE	Clean CCS Return On Average Capital Employed = NOPAT (as a sum of current and last three quarters) adjusted for the after tax effect of special items and CCS, divided by average Capital Employed (on a rolling basis, as an average of last four quarters) (%)
Clean effective tax rate	Taxes on income adjusted for the tax effect of special items and CCS, divided by Clean CCS Profit before tax (%)
EPS	Earnings per share = Net income attributable to stockholders divided by weighted number of shares
Effective tax rate	Taxes on income divided by Profit before tax (%)
EUR	euro
FX	Foreign Exchange

GMS	General Meeting of Shareholders
HSSE	Health, Safety, Security and Environment
IFRSs; IASs	International Financial Reporting Standards; International Accounting Standards
mn	million
MWh	megawatt hour
NBR	National Bank of Romania
Net debt/(cash)	Interest bearing debts plus finance lease liabilities less cash and cash equivalents
NGL	Natural Gas Liquids
n.a.	not applicable/not available (as the case may be)
n.m.	not meaningful i.e. deviation exceeds (+/-) 500% or comparison is made between positive and negative values
NOPAT	Net Operating Profit After Tax = Net income attributable to stockholders of the parent, adjusted for net interest on net borrowings, +/- result from discontinued operations, +/- tax effect of adjustments
OPCOM	The administrator of the Romanian electricity market
Operating Result	The "Operating result" includes the former indicator EBIT ("Earnings Before Interest and Taxes") and the net result from equity-accounted investments.
Operating Result before depreciation	Former EBITD = Operating Result Before Interest, Taxes, Depreciation and amortization, impairments and write-ups of fixed assets, including reversals
OPEX	Operating Expenses
Q	quarter
ROACE	Return On Average Capital Employed = NOPAT (as a sum of current and last three quarters) divided by average Capital Employed (on a rolling basis, as an average of last four quarters) (%)
RON	Romanian leu
S.A.; S.R.L.	Societate pe Actiuni (Joint-stock company); Societate cu Raspundere Limitata (Limited liability company)
Special items	Special items are expenses and income reflected in the financial statements that are disclosed separately, as they are not part of underlying ordinary business operations. They are being disclosed separately in order to enable investors to better understand and evaluate OMV Petrom Group's reported financial performance.
t	metric tonne(s)
TWh	terawatt hour
USD	United States dollar
yoy	year-on-year

Appendix 1

Consolidated companies in OMV Petrom Group at December 31, 2017

Parent company

OMV Petrom S.A.

Subsidiaries

Upstream		Downstream Oil	
Tasbulat Oil Corporation LLP (Kazakhstan)	100.00%	OMV Petrom Marketing S.R.L.	100.00%
Kom Munai LLP (Kazakhstan)	95.00%	OMV Petrom Aviation S.A. ¹	100.00%
Petrom Exploration & Production Ltd.	99.99%	Petrom Moldova S.R.L. (Republic of Moldova)	100.00%
		OMV Bulgaria OOD (Bulgaria)	99.90%
		OMV Srbija DOO (Serbia)	99.96%
Downstream Gas		Corporate & Other	
OMV Petrom Gas S.R.L.	99.99%	Petromed Solutions S.R.L.	99.99%

¹ 1 (one) share owned through OMV Petrom Marketing S.R.L.

Associated company, accounted for at equity

OMV Petrom Global Solutions S.R.L.	25.00%
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Appendices 1 and 2 form part of the preliminary and unaudited condensed consolidated financial statements

Appendix 2

Significant transactions with related parties

During the financial year 2017, OMV Petrom Group had the following significant transactions with related parties (including significant balances as of December 31, 2017):

Related party (in RON mn)	Purchases 2017	Balances payable December 31, 2017
OMV Supply & Trading Limited	1,065.37	0.97
OMV Petrom Global Solutions S.R.L.	441.38	92.33
OMV Refining & Marketing GmbH	204.04	68.14
OMV Exploration & Production GmbH	61.27	15.35

Related party (in RON mn)	Revenues 2017	Balances receivable December 31, 2017
OMV Supply & Trading Limited	309.73	-
OMV Deutschland GmbH	279.76	44.27
OMV Refining & Marketing GmbH	133.72	22.66
OMV International Services GmbH	1.00	26.73

During the financial year 2016, OMV Petrom Group had the following significant transactions with related parties (including significant balances as of December 31, 2016):

Related party (in RON mn)	Purchases 2016	Balances payable December 31, 2016
OMV Petrom Global Solutions S.R.L.	443.35	92.10
OMV Supply & Trading Limited	399.26	28.29
OMV Refining & Marketing GmbH	128.16	40.26
OMV Exploration & Production GmbH	57.93	14.26

Related party (in RON mn)	Revenues 2016	Balances receivable December 31, 2016
OMV Supply & Trading Limited	648.79	66.49
OMV Deutschland GmbH	178.05	30.16
OMV Trading GmbH	63.14	-
OMV International Services GmbH	1.08	20.80

Appendices 1 and 2 form part of the preliminary and unaudited condensed consolidated financial statements

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Next release: The next results announcement for Q1 2018 will be released on May 3, 2018, presenting OMV Petrom consolidated results prepared according to IFRS.

Disclaimer

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