OMV Petrom Factsheet Q4/17

February 21, 2018

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 2017[1]: RON 0.020/share, up 33% yoy.

Financial highlights

Q4/17	Q3/17	Q4/16	Δ% [2]	in RON mn	2017	2016	Δ%
5,142	5,032	4,694	10	Sales [3]	19,435	16,647	17
573	**1,042**	**453**	**26**	**Clean CCS Operating Result [4]**	**3,273**	**1,700**	**92**
340	428	246	38	Clean Operating Result Upstream [4, 5]	1,674	575	191
360	651	292	23	Clean CCS Operating Result Downstream [4]	1,753	1,122	56
(28)	(17)	(25)	(11)	Clean Operating Result Co&O [4]	(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 [4,8]	2,487	1,156	115
434	**778**	**263**	**65**	**Clean CCS net income attributable to stockholders [4,7,8]**	**2,488**	**1,162**	**114**
0.0077	0.0137	0.0046	65	Clean CCS EPS (RON) [4,7,8]	0.0439	0.0205	114
573	**1,042**	**453**	**26**	**Clean CCS Operating Result [4]**	**3,273**	**1,700**	**92**
145	**(173)**	**(193)**	**n.m.**	**Special items [6]**	**(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 [5]	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 [7]**	**2,491**	**1,043**	**139**
0.0113	0.0113	0.0029	297	Earnings Per Share (RON) [7]	0.0440	0.0184	139
-	-	-	-	Dividend/share (RON)	0.020[1]	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 (%) [4, 8]	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] Subject to approval by the Supervisory Board and the General Meeting of Shareholders;
[2] Q4/17 vs. Q4/16;
[3] Sales excluding petroleum excise tax;
[4] 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);
[5] Excluding intersegmental profit elimination shown in the line "Consolidation";
[6] 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;
[7] After deducting net result attributable to non-controlling interests;
[8] Excludes additional special income from a legal dispute reflected in the financial result.
Throughout the report, where not specified differently, amounts related to Downstream represent totals of Downstream Oil and Downstream Gas.

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 Q4/17 vs. Q4/16

Upstream

- **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 unfavourabe 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.

Reprted 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.

Downstream

- **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 price[1] of natural gas for transactions closed in Q4/17 (12 TWh[2]), with delivery until end-2018, was RON 84/MWh[2].

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 price[1] 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).

As per currently available information 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.

[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.*