



OMV Petrom Q2/18
Results

August 2, 2018
Christina Verchere,
CEO



OMV Petrom

Christina Verchere

Chief Executive Officer and President of the Executive Board

Stefan Waldner

Chief Financial Officer

The spoken word applies. Check against delivery.

Christina Verchere - OMV Petrom - CEO

Slide 1 – Intro

Good afternoon, ladies and gentlemen, and a warm welcome from my side. It is a real pleasure to present to this audience for the first time today the Q2/18 performance of OMV Petrom.

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Slide 2 – Legal Disclaimer

Before I 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 Q2/18

Financial performance



Operating Cash Flow
RON 1.4 mn



Clean CCS Operating result
RON 735 mn



Clean CCS ROACE
9.5%

Operational drivers



Production 160 kboe/d, -5% yoy
OPEX USD 11.7/boe, +12% yoy



Petrobrazil turnaround successfully completed
Retail sales volumes +1% yoy; non-retail sales volumes -26% yoy



Gas sales volumes -11% yoy
Higher net electrical output

HSSE

LTIR¹ 6m/18: 0.34
12-month rolling average LTIR¹ below industry benchmark

¹ Lost time injury rate (employees and contractors) for OMV Petrom Group



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Slide 3 – Key messages Q2/18

Let me start with some key highlights for the second quarter of 2018 on slide 3.

In this quarter, market conditions were very supportive for Upstream. While crude prices increased, refining margins and electricity spark spreads declined. In addition, retail fuels and power consumption were up year-on-year, while gas demand was lower.

Our Clean CCS Operating Result was RON 735 million, 18% lower year-on-year. The result was negatively impacted by the Petrobrazi refinery turnaround with an amount of RON (150) million and not yet realized inter-segmental profit of approximately RON (260) million.

In Upstream, we had lower production, by 5%, mainly due to natural decline and maintenance activities, partially offset by investment activities. In the first half of 2018, our total capex was around RON 2.1 billion, more than double the amount recorded in the first half of 2017.

Our OPEX/boe was 12% higher, mainly due to lower volumes, with an impact of USD 0.7/boe and a weaker USD versus RON, with an impact of USD 0.6/boe. However, in RON terms total Upstream production costs declined.

We successfully completed the planned full-site turnaround at the refinery without any significant incidents and lost time injuries. Investments in the modernization of the refinery over the recent years now enable us to perform turnarounds going forward every four years instead of every two years previously. The next turnaround is planned for 2022.

Our retail sales volumes were 1% higher year-on-year, supported by higher demand, especially in our main market, Romania. As we performed the refinery turnaround, we had lower product availability, visible only in non-retail sales, which decreased by 26% year-on-year.

In Downstream Gas, we recorded an 11% year-on-year decrease in gas sales, in the context of lower equity gas production. We had a higher net electrical output, supported by a higher availability of the Brazi power plant.

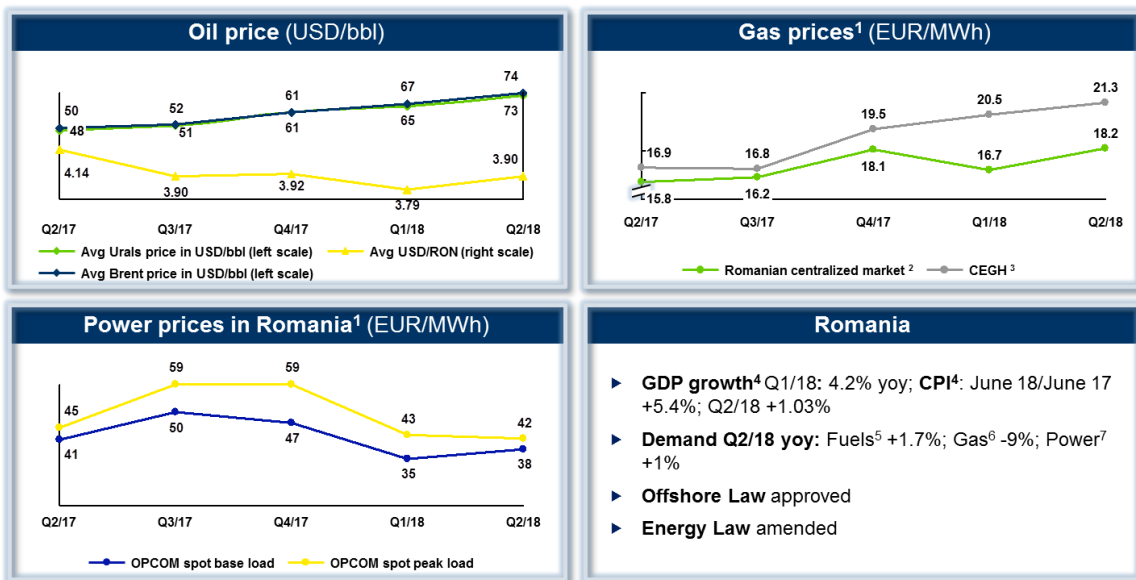
Our operating cash flow mirrored the Operating Result trend and amounted to RON 1.4 billion. With cash out for investments of around RON 0.9 billion and dividend payments of RON 1.1 billion, our free cash flow after

dividends shows an outflow of around RON (640) million in Q2/18. Finally, our Clean CCS ROACE improved on a year-on-year basis almost 2 pp to 9.5%.

The Lost Time Injury Rate reached 0.34 in the first six months of 2018, above the figure recorded in the first half of last year. Our 12-month rolling average LTIR remains below the industry benchmark.

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Economic environment



¹ Prices estimated by OMV Petrom based on available public information; the prices in EUR/MWh are translated at the NBR average RON/EUR rate; ² All transactions concluded in the respective quarter, irrespective of delivery period and product type; ³ Day-ahead market Central European Gas Hub; ⁴ Romanian National Institute of Statistics; ⁵ Fuels refer only to retail diesel and gasoline; OMV Petrom estimates based on Romanian National Institute of Statistics data; ⁶ According to Romanian Energy Regulatory Agency reports until April 2018 and company estimates; ⁷ According to preliminary data available from the grid operator



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Slide 4 – Economic environment

On slide 4, we provide some macroeconomic highlights for Romania and an overview of the pricing environment in our industry.

Brent averaged USD 74/bbl in the second quarter, 50% higher year-on-year. A similar trend can be seen for Urals. The price spread between Brent and Urals increased to USD 1.65/bbl in Q2/18.

Regarding the exchange rate in second quarter 2018, the USD was weaker versus the RON by 5.6% year-on-year.

Gas price on the Romanian centralized market averaged RON 84/MWh; approximately EUR 18/MWh, up 15% compared to Q2/17. For reference, the European gas price averaged around EUR 21/MWh, 26% higher versus Q2/17.

Finally, the base load prices for electricity in Romania were down by 7% year-on-year in EUR terms.

Let me briefly touch on the Romanian environment.

Romania enjoys high GDP growth, but the pace of domestic consumption and industry growth has been slowing. Inflation appears to have flattened out in June and it is expected to start declining in the autumn.

Looking at the Romanian energy sector, the market demand for our products was mixed in Q2/18. Demand for fuels, and here I refer to retail diesel and gasoline, increased by almost 2% year-on-year. Demand for gas decreased by an estimated 9%, while power demand slightly increased by 1% compared to Q2/17 (according to the preliminary data available).

On the regulatory framework there are a number of recent changes at various stages of approval and implementation.

The new draft of the Offshore Law was approved by Parliament. The law was sent to the President for promulgation.

Several amendments have been brought to the Energy Law, including higher quotas of gas volumes to be traded on the Romanian centralized markets by participants to the wholesale market (50% as sellers and 40% as buyers). The new quotas apply from 1st of January, 2019 and may be increased yearly by the energy regulator.

We expect clarifications for both Offshore and Energy laws in order to assess the impact on our operations.

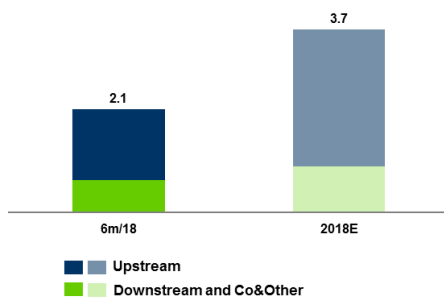
We continue to stress that a stable, predictable and investment-friendly fiscal and regulatory framework is a key requirement for our future investments, both onshore and offshore.

We are aiming for final investment decision for Neptun project this year, depending on stable fiscal regime, gas market liberalization and gas infrastructure development.

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CAPEX and E&A

Group CAPEX incl. capitalized E&A (RON bn)



CAPEX incl. capitalized E&A

- ▶ **6m/18** at RON 2.1 bn:
 - ▶ 45 new wells and sidetracks drilled
 - ▶ ~470 workovers performed
 - ▶ Refinery turnaround
 - ▶ Brazi power plant partial shut-down
- ▶ **2018E maintained** at RON 3.7 bn:
 - ▶ Drilling >100 development wells and sidetracks
 - ▶ ~1,000 workovers
 - ▶ Polyfuel project

E&A expenditure

- ▶ 3 wells spudded in 6m/18
- ▶ 3 wells in testing
- ▶ 2018E exploration expenditure RON ~460 mn



Slide 5 – CAPEX and E&A

Slide 5 provides an overview of CAPEX and exploration and appraisal activities including an outlook for 2018. In the first six months of 2018, our total CAPEX was around RON 2.1 billion, more than double the amount recorded in the first half of 2017.

The majority was spent in Upstream. We continued our drilling activities, with 11 active rigs at the end of June. In the first half of the year we finalized the drilling of 45 new wells and sidetracks, including two exploration wells. This is more than twice the number of wells drilled in 6m/17. Around 470 workover jobs were performed in the same time period.

The six-week full-site turnaround of the Petrobrazi refinery was successfully completed at the end of May, on time and on budget. In Q2/18 we also performed a planned partial shutdown of the Brazi power plant.

For the full year 2018, we maintain our CAPEX guidance of around RON 3.7 billion. The majority will be spent in Upstream: we plan to drill more than 100 new wells and sidetracks and to carry out around 1,000 workovers. About 25% of the CAPEX is allocated to Downstream, with the majority of it for the refinery turnaround and the construction work of the Polyfuel plant in the Petrobrazi refinery. The Polyfuel plant is expected to become fully operational in early 2019.

Moving to exploration activities, in the first half of 2018 we spud three wells, while three others were in testing.

Regarding E&A activities in 2018, we expect exploration expenditures to be around RON 460 million. We revised up our guidance for the full year E&A, due to an expected increased working interest in exploration joint ventures and increased expenditures for drilling and testing.

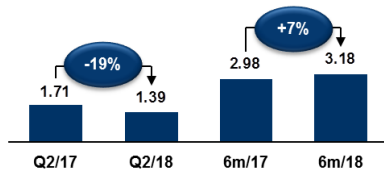
Let me now hand over to Stefan, who will go into the financials in greater details and also provide you with the outlook for 2018.



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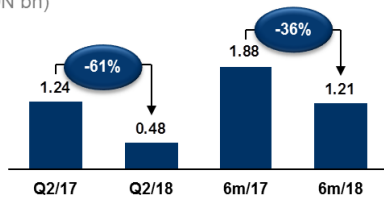
Cash Flow highlights

Operating Cash Flow (RON bn)



- ▶ Q2/18 OCF¹ down due to lower Operating Result
- ▶ Q2/18 NWC²: cash outflow RON 76 mn
- ▶ Q2/17 NWC²: cash inflow RON 275 mn

Free Cash Flow (RON bn)



- ▶ Q2/18 CAPEX more than double yoy
- ▶ CFI³ following CAPEX trend
- ▶ Dividends paid in Q2/18: RON 1.1 bn

¹ Operating Cash Flow; ² Net Working Capital; ³ Cash flow from investing activities



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Slide 7 – Cash Flow highlights

Thank you, Christina, and good afternoon to you all.

On slide 7, I would like to start with the highlights of our cash flow statement. In Q2/18, we achieved an operating cash flow of about RON 1.4 billion, 19% down year-on-year, mainly reflecting the market conditions that Christina already mentioned, as well as the effects of the Petrobrazil turnaround.

Net working capital in Q2/18 generated a cash outflow of RON 76 million. This reflects an increase in inventories, mainly of crude oil as a result of the turnaround, as well as an increase in receivables (mainly due to higher trade receivables generated by increased oil product quotations). This was partly offset by an increase in liabilities due to higher purchases of petroleum products replacing equity products during the turnaround. For comparison, in Q2/17 net working capital generated a cash inflow of RON 275 million.

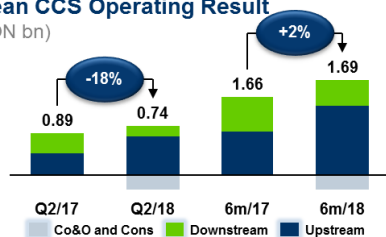
As far as cash outflow for investments is concerned, this reflects the CAPEX trend presented earlier, as well as the payment terms with our contractors. Our total payments for investments amounted to around RON 900 million in Q2/18 versus around RON 475 million in Q2/17.

Therefore, our free cash flow was 61% lower in Q2/18 versus Q2/17. We paid out dividends for the financial year 2017 amounting to RON 1.1 billion and thus our free cash flow after dividends turned negative, at around RON (640) million versus a positive of approximately RON 400 million in Q2/17. Due to the strong Q1/18, the free cash flow after dividends for 6m/18 remains positive. Our net cash position, while lower compared to Q1/18, remained strong at approximately RON 3 billion as at the end of Q2/18.

Income Statement highlights

Clean CCS Operating Result

(RON bn)

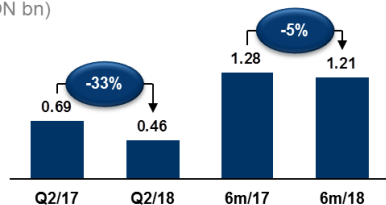


Clean CCS Operating Result reflects:

- Favorable commodities prices
- Petrobrazil turnaround
- RON 73 mn insurance revenues booked in Q2/17
- Consolidation reflects mainly crude oil stocks due to Petrobrazil turnaround

Clean CCS Net Income¹

(RON bn)



Clean CCS Net Income lower:

- Higher net financial loss
- Effective tax rate 23% in Q2/18 (17% in Q2/17)

¹ Attributable to stockholders of the parent



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Slide 8 – Income Statement highlights

On slide 8, I would like to discuss some highlights of the Income Statement, with a focus on Q2/18 versus Q2/17 developments.

Sales increased by 8% year-on-year, supported by higher prices for petroleum products and natural gas and by higher electricity sales volumes, partially offset by lower sales volumes of natural gas and petroleum products and by lower electricity prices.

The positive impact of improved commodity prices offset the effects of the shutdown of the Petrobrazi refinery in the Downstream segment. The turnaround also led to higher levels of own crude oil stored, translating into unrealized profits, which were eliminated in the Consolidation line at the Group level. This effect will be reversed over the remainder of the year as stored crude is processed and crude inventories are reduced to normal levels.

I also want to remind you that Q2/17 reflected the booking of RON 73 million insurance revenues related to the Brazi power plant.

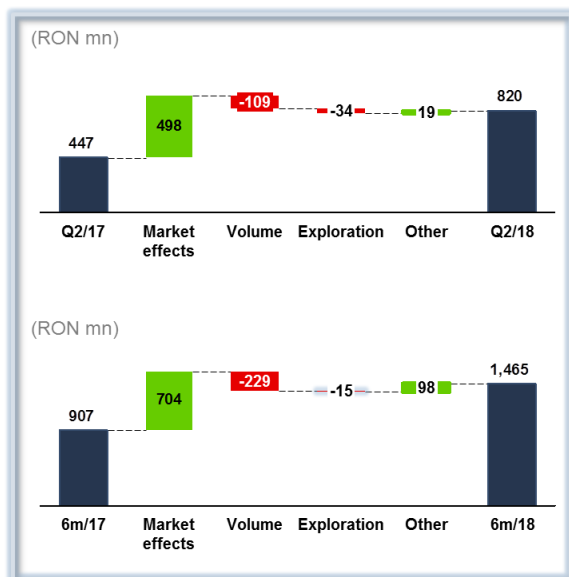
Thus, the Q2/18 Clean CCS Operating Result decreased by 18% year-on-year.

Special items in Q2/18 comprise a net charge of RON 191 million, mainly related to unrealized losses from the mark-to-market valuation of electricity forward contracts. For comparison, in Q2/17 we had a net special charge of RON 81 million. The Q2/18 Reported Operating Result includes inventory holding gains of RON 157 million, due to increased crude quotations, versus inventory holding losses of RON (32) million in Q2/17.

The net financial loss in Q2/18 increased year-on-year to RON (135) million, reflecting mainly higher interest expenses in relation to the discounting of receivables and the preliminary result of a fiscal review.

As a result, the net income attributable to stockholders decreased by 27% year-on-year on a reported basis and by 33% on a Clean CCS basis.

Upstream Clean Operating Result



- ↑
 - ▶ Higher realized oil prices
 - ▶ Lower total production costs
- ↓
 - ▶ Negative FX development
 - ▶ Sales volumes -6%
 - ▶ Higher exploration expenses



Slide 9 – Upstream Clean Operating Result

Let me move on to slide 9, which shows the major building blocks for the development of the Upstream Clean Operating Result in Q2/18 and in 6m/18.

The increase in the realized oil price by around 55% year-on-year to USD 64.7/bbl in Q2/18, resulted in a positive market effect of RON 498 million. This effect also includes the negative impact of the weaker USD versus RON on revenues.

Hydrocarbon production in boe/d was down by 5% in Q2/18 versus Q2/17. The decrease was mainly due to natural decline, marginal fields divestment and the impact of maintenance activities. Hydrocarbon sales were 6% lower, generating a negative volume effect of RON 109 million.

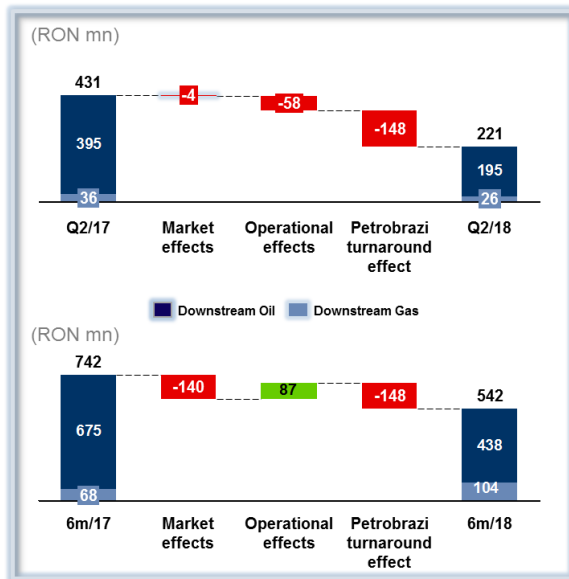
Exploration expenses were higher by RON 34 million, mainly due to studies and related write-offs.

“Other” factors include lower depreciation, as well as lower total production costs, reflecting continued cost reduction measures.

As a result, the Q2/18 Upstream Clean Operating Result increased by 83% year-on-year to RON 820 million.

Looking at the lower graph, where we compare the Clean Operating Result for the first six months of 2018 with the same period of 2017, we can notice the same factors and trends as for the quarterly comparison. The Clean Operating Result for the first six months increased by 62% to RON 1.465 billion.

Downstream Clean CCS Operating Result



- Higher Brazil power plant availability
- Positive realized contribution from forward contracts
- Lower refining margins
- Lower refined product sales due to Petrobraz turnover
- Lower spark spreads
- Lower gas sales volumes
- 2017 included RON 73 mn insurance revenues



Slide 10 – Downstream Clean CCS Operating Result

Moving to slide 10, the Q2/18 Clean CCS Operating Result of Downstream decreased by 49% year-on-year, reflecting the results development of both the Downstream Oil and Downstream Gas segments.

In Downstream Oil, we had a lower year-on-year Clean CCS Operating Result, due to two main factors: one is the 45-day full-site Petrobrazil refinery turnaround, which resulted in higher maintenance expenses and lower refined product sales due to lower product availability. The other, shown in market effects, was a decrease in refining margins by USD 1.8/bbl year-on-year, to USD 6.72/bbl, mainly an effect of the increasing crude oil price.

The Downstream Gas Clean Operating Result reflects the optimization of products and clients portfolios, and was also supported by higher availability of the Brazil power plant, which translated into net electrical output increasing from 0.1 TWh to 0.4 TWh. Our gas sales volumes in Q2/18 decreased by 11%, mainly triggered by lower equity gas production. As mentioned earlier, Q2/17 included the booking of RON 73 million insurance revenues related to the Brazil power plant.

The lower graph shows a year-on-year comparison for the first six months of the year. In 6m/18, the Downstream Clean CCS Operating Result decreased, reflecting a lower contribution of Downstream Oil, partly offset by the higher Downstream Gas segment results.

The Downstream Oil result reflected the effects of the Petrobrazil refinery turnaround and lower refining margins in 6m/18.

Downstream Gas Clean Operating Result improved in 6m/18, mainly driven by the positive realized contribution from electricity forward contracts. The result was also supported by the fact that we are no longer obliged to sell gas at regulated prices since April 2017.

Outlook 2018

Indicators	Actual 2017	Assumptions/Targets 2018
Brent oil price	USD 54/bbl	USD 70/bbl (previous: USD 68/bbl)
Refining margin	USD 7.75/bbl	<USD 7.75/bbl
Production	168 kboe/d	~ -4% yoy ¹
CAPEX	RON 3.0 bn	RON 3.7 bn
FCF after dividends	RON 2.7 bn	positive

¹ Not including portfolio optimization initiatives



Slide 11 – Outlook 2018

Let me finish my part of the presentation with the outlook for the full year 2018, on slide 11. Here I would like to highlight our main market assumptions as well as the targets we have set for 2018 and how they compare to the actual 2017 figures.

Throughout the first half of this year, we saw the oil price stabilizing at a level around USD 70/bbl. Against this background, we have decided to update the oil price forecast to USD 70/bbl for the full year 2018 (versus USD 68/bbl previously).

In Downstream Oil, we see declining refining margins compared to 2017 due to the crude price recovery.

With regard to our targets for 2018, we aim to maintain the hydrocarbon production decline versus 2017 at around 4%, not including portfolio optimization initiatives.

The total CAPEX for the Group will increase versus 2017, to around RON 3.7 billion, as guided in February 2018.

Supported by the favorable commodity prices, we expect to have a positive free cash flow after dividends in 2018.

We are now available for your questions.

Q&A



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Backup



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Operational KPIs

