

Annual Report 2017



OMV Petrom

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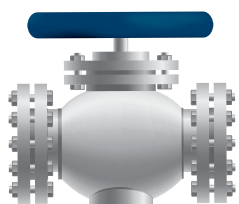
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OMV Petrom Group in figures 2017

Note: In this report, "the Company", "OMV Petrom", "OMV Petrom Group" and "the Group" are sometimes used for convenience where references are made to OMV Petrom S.A. and its subsidiaries in general. The financials presented in the report are audited and represent OMV Petrom Group's consolidated results prepared according to IFRS; all the figures refer to OMV Petrom Group unless otherwise stated. Figures may not add up due to rounding differences.

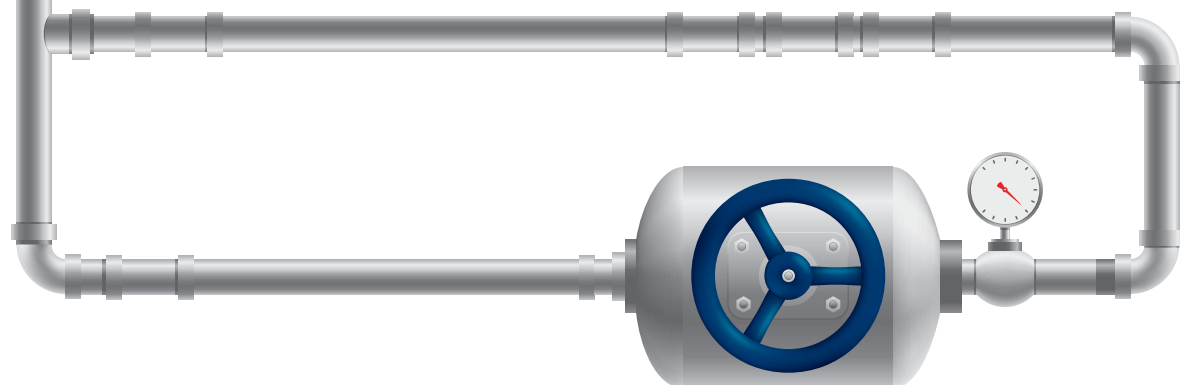
Starting 2017, OMV Petrom's Consolidated Income Statement has been restructured in line with industry best practice to comprehensively reflect the operations of the Group and enhance transparency for the users of the financial statements. For comparability reasons, figures of the prior year have been reclassified according to the new structure. Further information can be found on in the section "Notes to the income statement" on pages 62-64.

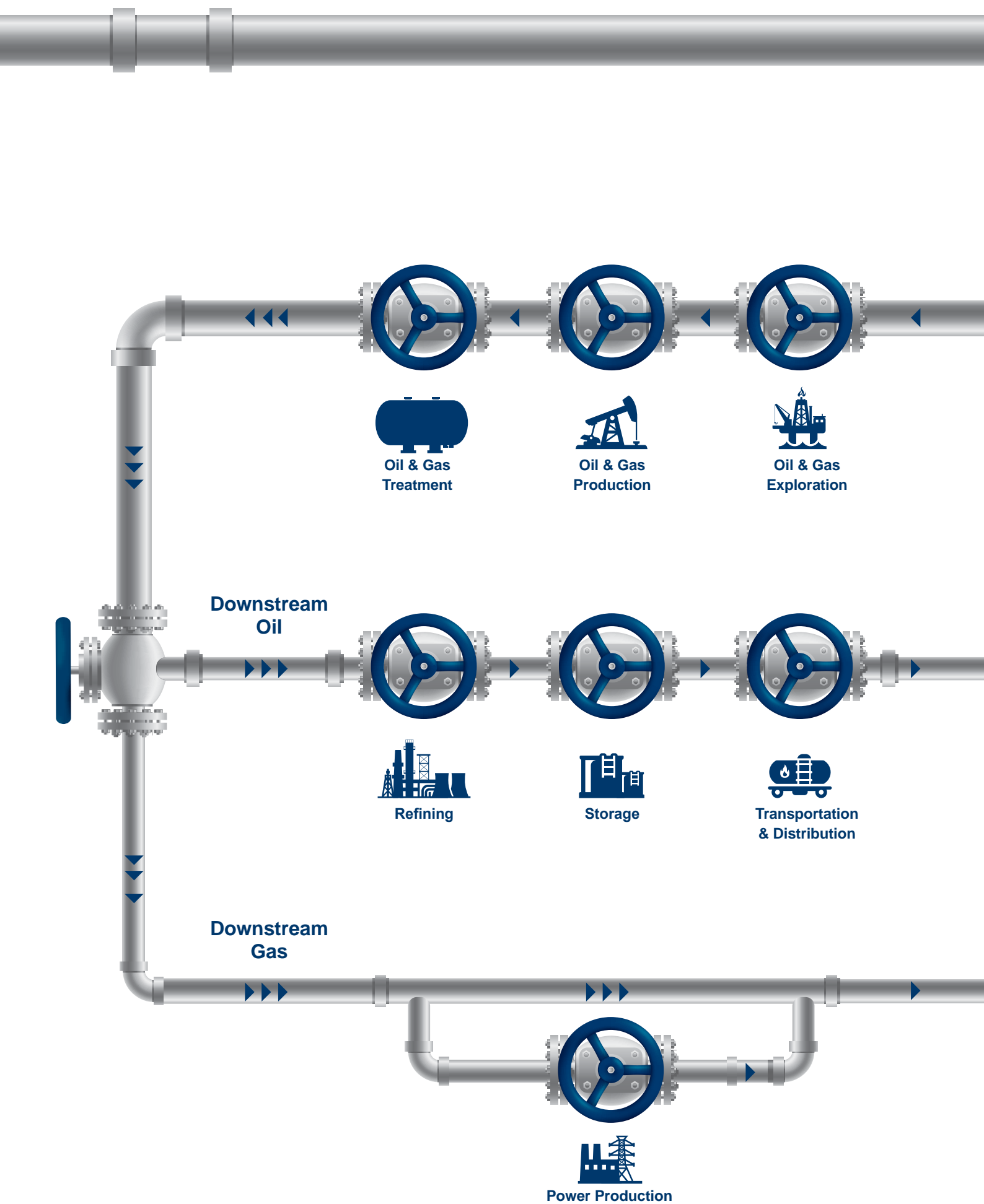


Hydrocarbons' journey

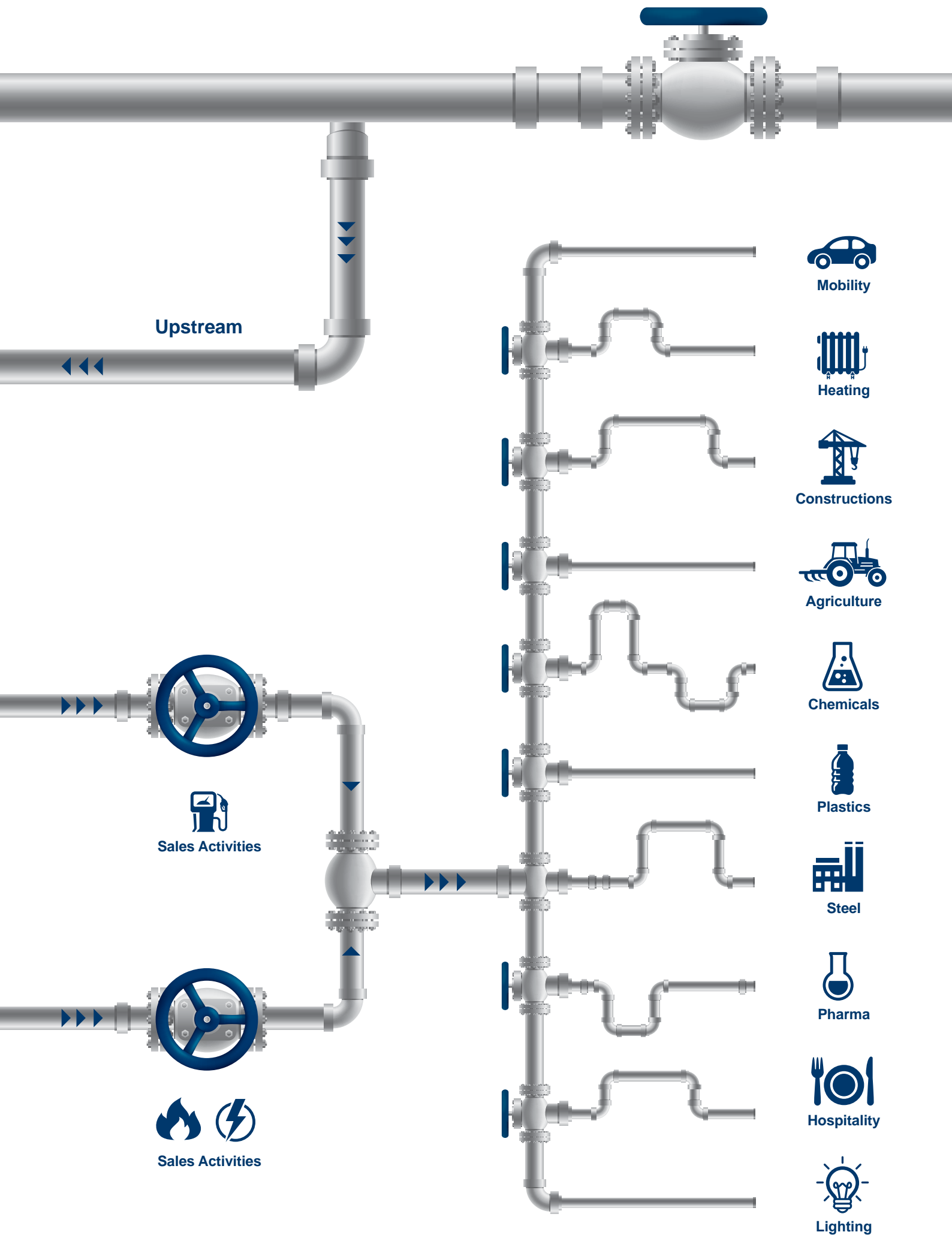


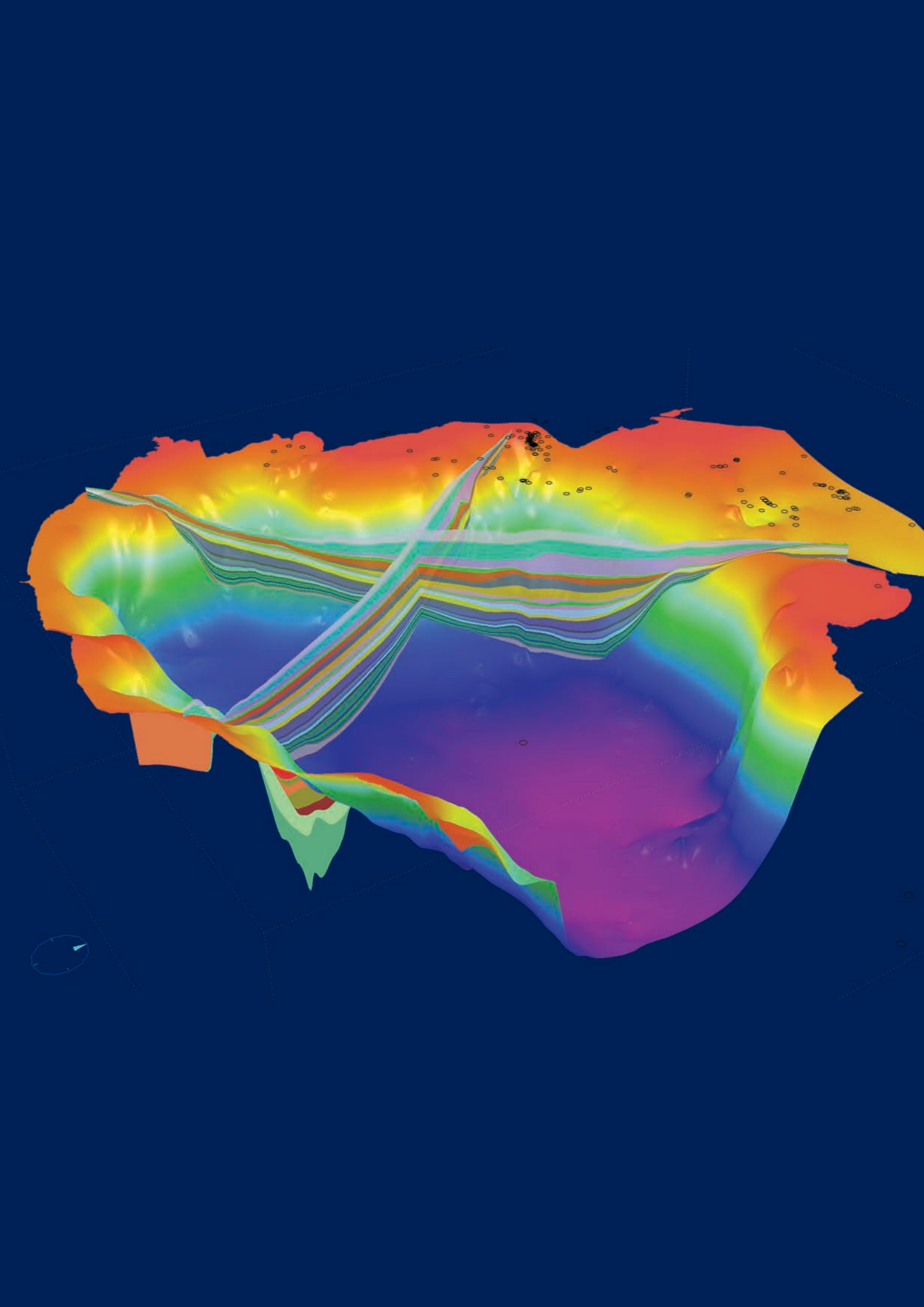
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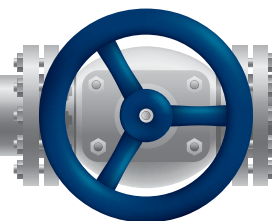




Simplified representation of OMV Petrom's business model and value chain.







Preparing for the journey: Oil & Gas Exploration

A journey along OMV Petrom's value chain starts with a quest under the surface of the Earth

Exploring for oil and gas resources is a fascinating activity involving a high degree of uncertainty. To locate geological traps containing hydrocarbon accumulations, OMV Petrom experts take an interdisciplinary approach and use a variety of techniques and sophisticated technologies to construct a subsurface geological model as accurately as possible. This allows us to feel confident about the evidence and extent of an oil and gas accumulation before starting preparations to drill an exploration well. If the exploration well finds oil and gas, further appraisal wells can be drilled, and production testing undergone to establish if the reservoir is economically viable.

Padina Nord – OMV Petrom's geological concept successfully implemented in the JV with Hunt Oil

Romania has a rich oil-related history. In 2017, it celebrated 160 years of being the first country in the world to establish industrial-scale oil production. In 1857, Bucharest was the first city in the world to use clean-burning kerosene lamps for its public lighting. Romanian engineers were leading lights in developing vital extraction and refining technology, including valve designs, blowout preventers, and lifting mechanisms, all concepts which can still be seen in today's high-tech operations.

Since the oil industry's early days, thousands of wells have been drilled across the country, yet significant exploration potential still exists deeper underground. An example is the eastern area of Romania, where the first hydrocarbon discovery was brought on stream more than fifty years ago. In such an old oil and gas province, some might believe that it is pointless to explore for hydrocarbons nowadays. In 2014, however, OMV Petrom and Hunt Oil Company of Romania (Hunt Oil) made a significant oil and gas discovery in this area.

The story started when the joint venture (JV) of OMV Petrom and Hunt Oil (operator) drilled the first exploration well. The well discovered a new hydrocarbon accumulation close to the historical fields – oil in the carbonate reservoirs and gas in the sandstones. This discovery was made possible by using the latest technological methods for subsurface imagistic investigation, together with state-of-the-art processing techniques as well as improved technologies for geochemical, mineralogical, and biostratigraphic analyses of the rocks and fluids.

Following successful well testing, the JV partners decided to start experimental production with the purpose of collecting sufficient data required to enable the decision to move forward with field development. In 2015, more than 250 km² of 3D seismic activities across the interest area were recorded.

In parallel with exploration drilling and seismic data acquisition activities, the OMV Petrom and Hunt Oil partnership placed an important focus on its social responsibility towards local





communities. Several projects were implemented for this purpose. They provided general awareness training on health, safety, and social topics, but also specific insights into the oil and gas industry.

In 2016, the necessary surface facilities and pipeline to tie-in into the national gas transportation system were built. Considering the proximity to the existing fields, the tie-in with the already existing gas infrastructure was quickly

achieved, thereby allowing the new discovery's "first gas production" to be fast-tracked.

In June 2017, the JV partners considered the testing program completed. The well performance ranks the well among the top wells in OMV Petrom's portfolio, thereby proving just how successful this venture has been.

The partners invested a total of approximately EUR 17 mn in the project area from 2014 to 2017.





Hydrocarbons start their journey: Oil & Gas Production

The quest continues as we witness how hydrocarbons are brought to the surface

If the hydrocarbon discovery is deemed economically viable, our team proceeds with field development and production. During this process, the project is matured from the concept stage to design and then to execution. A number of production wells are drilled while the necessary infrastructure, including platforms, pipelines, and processing plants, is built. This is a very lengthy stage in the life of the field and involves vast amounts of investments. These very much depend, among other things, on the characteristics of the reservoir, such as its location, onshore or offshore, depth, as well as type of the hydrocarbons and the production methods used.



Surface production facilities optimization (SPFO): an integrated approach for a rejuvenated surface facilities landscape

OMV Petrom is a company with a long tradition in the oil and gas industry and has gone through major transformations over the years. To maintain competitiveness and ensure safe working conditions and the integrity of aging production facilities, significant investments have been made – even in the most challenging environments – to develop and

modernize operations using state-of-the-art technologies.

Modern operating approaches and sophisticated control methods drive the best performance of existing surface facilities. This is especially important when dealing with mature fields. With this in mind, the



SPFO program was initiated in 2014. At that point in time, the SPFO program's novelty was to approach the entire architecture of Upstream production facilities – by thinking, planning, and implementing projects in a consolidated and standardized manner.


This program translates into measures to optimize production facilities, simplify operations, and reduce footprint. More specifically, this includes the:

- ▶ Replacement of aged equipment with more efficient options in terms of energy consumption, materials, repairs, and lower emissions;
- ▶ Integration of automated equipment in the SCADA (Supervisory Control And Data Acquisition) system for monitoring and optimizing the production process;
- ▶ Standard reporting and alarm management systems;
- ▶ Bypassing of old production parks while diverting production to nearby modernized and optimized facilities.

Since the beginning of the program, OMV Petrom has optimized more than 100 facilities (parks, compressor stations, boiler stations, and treatment and injection facilities) and in addition 4,800 wells have been fully automated to enable the integration with modernized facilities and efficient modern operations.

The program has many different benefits, allowing the company to reduce costs and therefore stay competitive within the oil and gas industry benchmark. In addition, measures taken as part of the SPFO program have resulted in significantly reduced operational and process safety risks in line with the company's HSSE focus.





Independența Oil Field: strategic technology deployment as a driver of the field's highest oil production

The Independența oil field, located in eastern area of Romania, a mature field, is the second largest oil producing field in OMV Petrom.

After more than 50 years since production start, an integrated field redevelopment program was initiated with the objective to maximize economic reserves recovery and to become resilient even in an environment with low oil prices. Five years later and after an investment of EUR 50 mn, the Independența oil field is proof of how successful strategic deployment of innovative technology in an integrated manner can turn around mature fields into becoming, once again, best in class. Furthermore, the production costs were successfully stabilized in a field requiring artificial lift.

A modern approach to subsurface

Following the first step of seismic data acquisition, a team of subsurface experts was set out to build a full-fledged 3-D geologic-model to enhance the understanding of the reservoir. After careful interpretation, OMV Petrom experts decided to go ahead with the development using infill drilling.

New production concepts such as dual completion, chemical water shutoff, and horizontal well technology were designed and piloted in a first phase to maximize economic recovery while reducing the surface footprint and operational complexity. Following the excellent pilot results, with production up to ten times higher since 2014, the approach has shifted completely towards horizontal wells drilled from cluster locations. The production contribution from horizontal wells represents 16% of the Independența field's total production. These wells were drilled via a turnkey drilling contract, thus employing a high level of expertise while reducing OMV Petrom's financial risk exposure.

Facilities designed for increased operational efficiency

Besides the use of innovative subsurface technologies, Independența's surface facilities were upgraded and designed to be OMV Petrom's first fully integrated digital oil field. The aim was to create value through the increased, integrated, and reliable performance data availability for skilled professionals. This procedure is known as "Data Enabled Operations Excellence".

As of today, all wells and the majority of gathering facilities are automated and connected to a SCADA system. Real-time data from wells and facilities are transmitted through these systems to the Data Center located in OMV Petrom's headquarters and are monitored 24/7 in the local Operational hub. Petroleum engineers are able to use this online digital information to constantly optimize the running parameters of the wells and facilities.

Together with the field operational team, the field redevelopment



program deployed new automated facilities called “Metering Point Skids” (MPSs) designed to replace the previous gathering facilities, which were, in terms of production level and footprint, oversized.

New materials, such as fiber-glass flowlines, extend the pipes’ lifetime, resulting in increased integrity and safety for personnel and environment as well as cost savings.

All these have led to an effective well maintenance management, reducing both costs and operational complexity for field personnel. The run life of equipment improved to beyond 700 days on average, distinguishing Independența as a top performer among heavy oil fields with sand production.

A new gas-to-power (G2P) unit installation with the purpose of collecting the small amounts of associated gas from Independența will further reduce greenhouse gas emissions and complement energy self-sufficiency starting with 2018.

An outlook into the future

Besides further extending horizontal well infill drilling, a second phase of the field redevelopment program has been launched to further maximize economic reserves recovery and add new reserves. Seismic inversion algorithms are currently employed to uncover new geological features and structures so far missed or not explored due to insufficient data available.

At the end of 2018, a polymer injection pilot is slated to start in the Independența oil field to test the effect of this Enhanced Oil Recovery (EOR) method to increase the maximum recovery factor. If successful, it would be the first EOR polymer application in Romania. Downhole motor technology is currently in the testing phase in two Independența wells to improve the run life of equipment in deviated and horizontal wells. Last but not least, a state-of-the-art central processing facility and water disposal system to accommodate future production volumes is in the concept phase.





A mandatory halt along the way: Oil & Gas Treatment

The journey takes us through the complex separation of hydrocarbons from other substances that accompany them

Before the produced oil and gas can be transported for further processing, they need to be treated at the production site. Sediments and water are removed from the mixture and, oil and gas are separated. The water is filtered several times to remove all oil contaminants; thereafter either injected into the reservoir to maintain pressure or sent onwards for safe disposal. All condensation is removed from the gas in a dehydration unit and, if necessary, a desulfurization treatment is applied. The desulfurized and dried gas is then sent on its way to our clients via the national transportation system. As for the crude oil, once it is free of residual water and natural gas, it is ready to be sent to the OMV Petrom refinery in Petrobrazi for further processing.



Burcioaia: a modern gas treatment plant delivering sustainable access to energy

In 2017, OMV Petrom put a state-of-the-art gas treatment facility on stream following an investment of around EUR 70 mn in a new project. Located in the Burcioaia gas condensate field, this new lean plant replaced the 30-year old outdated infrastructure. It will establish sustainable access to gas in the region, delivering superior gas quality at high pressure and thus supporting Romania's energy strategy.

The Field Redevelopment (FRD) Burcioaia was launched in 2011 with the new gas processing plant at its center. The key drivers were, and are, to improve

the safety and integrity by replacing old infrastructure and to maximize reserves recovery.

The modern facility is able to separate, treat, measure, compress, and deliver gas at 40 bar and process up to 1,000,000 standard cubic meters of gas per day. After separating the free liquids and compressing the gas, low-temperature technology is utilized to achieve the superior gas specification by cooling the gas to extract heavy components such as liquid condensate and water. The associated volume of condensate is processed and stabilized for transport to a central



storage location. The captured water is treated and disposed of via a new water disposal station integrated into the plant.

The integrity and safety upgrade to the latest standards included the new plant, new flow lines to all nine active producing wells, and a new export pipeline and interconnection to link the plant with the national gas pipeline network.

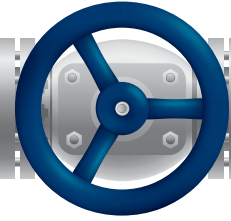
The entire field is connected to a central control room that uses a supervisory control system to manage and optimize the performance of the wells and plant in real time in order to achieve a continuous high-end gas product. Equipped with the latest sensor technology including gas/ fire detection and video surveillance for quick intervention, OMV Petrom's first digital gas field was designed to be fail-safe and autonomous. If imminent danger is detected, the plant logic automatically shuts down wells and depressurizes the facility using a control flare system to avoid any remaining risk of fire and explosion. Minimum exposure of on-site personnel is assured thanks to an abundance of sensors and high-resolution video cameras to detect any deviations early – without necessitating any human presence inside the facility.

First applied in OMV Petrom, the gas processing facility followed a standardized modular design concept that can potentially be re-implemented for similar sites elsewhere. With a facility being deployed in standardized modules, the plant can be moved and rigged up in a different location if ever required. The shared design with other planned twin facilities brings the added benefit of interchangeability for spare parts, maintenance management, and operating personnel, leading to increased uptime and certainly also cost savings in the future.

The on-site resources involved during the construction phase peaked at 180 contractors working in parallel. After a total of 860,000 man-hours without any health and safety incident, OMV Petrom's safest gas processing facility in Romania delivers high-quality gas to our customers, ensuring sustainable access to energy for everyday modern life.







Taking the Downstream road: Oil Refining

Hard work pays off – the incredible transformation of one substance into many different products

Traveling further down our value chain, it becomes even easier to see how we deliver on the commitment to provide sustainable access to energy for everyday modern life. Crude oil is the basis for so many products that are valuable and useful for society: various fuels, detergents, solvents, adhesives, synthetic rubbers, pesticides, synthetic fabrics, and plastics are all derived from different hydrocarbon molecules contained within crude oil. Through the chemical process called “Fractional distillation” – the basis of oil refining – hydrocarbons with different boiling temperatures are distilled from the crude oil mix and become separate substances: from heavy fuel oils to lighter hydrocarbons (such as diesel, kerosene, gasoline), and to liquid petroleum gases (such as butane and propane).



Fifty years of fluid catalytic cracking in the Petrobrazî refinery

160 years have passed since the beginning of industrial oil processing and refining in Romania. As a happy coincidence, 2017 also marked the 50-year anniversary since the start-up of the Petrobrazî refinery's Fluid Catalytic Cracker (FCC) unit.

During this time, the demand for petroleum products changed significantly. Lighter products such as gasoline and kerosene became more popular and more expensive with the development of road and air transportation. At the same time, heavy fuel oil decreased in popularity due to the proliferation of other energy sources (such as natural gas and nuclear power) for heating and power generation. In order to obtain higher proportions of high value-added products and match this change in demand patterns, a group of inventive process engineers developed a number of cracking techniques, the most popular one being catalytic cracking.

The process that takes place in a catalytic cracker is as follows: straight run heavy oils (residues from vacuum

distillation) and flasher tops (light vacuum gas oils) are brought into contact with a catalyst at elevated temperatures and pressures to promote cracking to smaller, more valuable molecules. Heat is the key element required to start the process; temperatures in the catalytic cracker reach about 500°–560° Celsius. In contrast to the distillation process, which only separates crude oil into its constituent parts, catalytic cracking modifies the size and structure of individual molecules.

The FCC plant within the Petrobrazî refinery was built using technology bought from Universal Oil Products, a well-known name in the development of hydrocarbon science and technology. Construction began in 1966 and the plant was commissioned in 1967. The FCC unit, along with other units built subsequently, positioned the Petrobrazî refinery amongst the most advanced and complex refineries in Europe.

Since its commissioning, the FCC plant has gone through several revamping projects. Following these



successful revamps and many other modernization initiatives, its processing capacity increased from around 1.1 mn tons/year in 1967 to almost 1.8 mn tons/year in 2014, thus enabling superior crude oil processing. Starting with 2014, the Petrobrazî refinery, with a total capacity of 4.5 mn tons/year, can process OMV Petrom's entire domestic crude oil production, maximizing integration with the Upstream segment and thus increasing profitability.

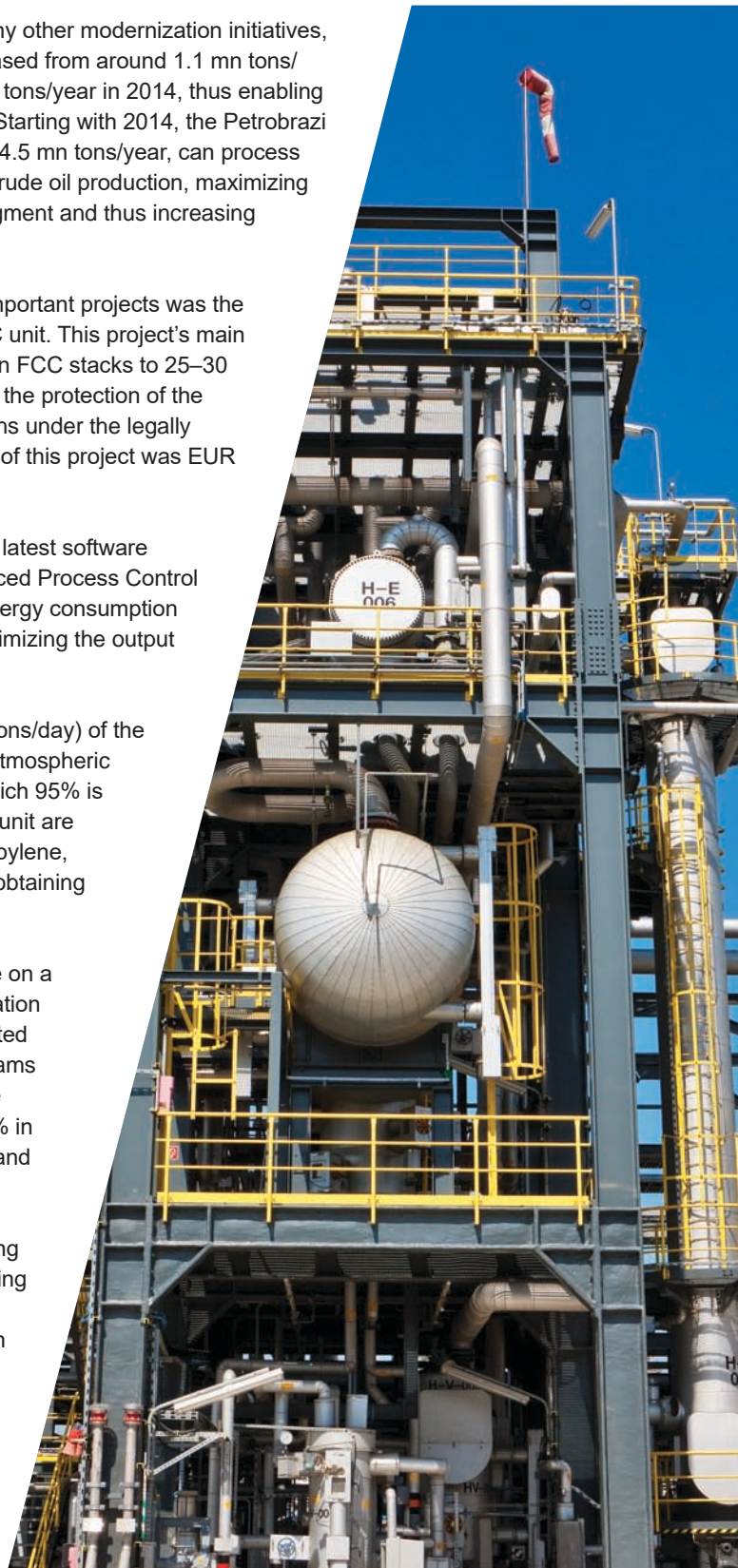
In January 2015, one of the most important projects was the mounting of electro filters in the FCC unit. This project's main purpose is to reduce dust emissions in FCC stacks to 25–30 ppm (parts per million), contributing to the protection of the environment by keeping these emissions under the legally accepted limits. The approximate value of this project was EUR 5 mn.

At present, the FCC is operated using the latest software technology available on the market, Advanced Process Control (APC). It is an application that minimizes energy consumption and optimizes the plant's functioning by maximizing the output of valuable products.

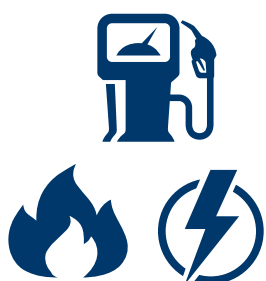
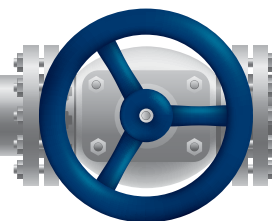
On a normal working day, 30% (almost 4,900 tons/day) of the vacuum gas oil resulted from the vacuum and atmospheric distillation process is used in the FCC unit, of which 95% is further converted. The main products of the FCC unit are post-treated gasoline, etherified gasoline, and propylene, components that play a vital role in the process of obtaining high-value products such as gasoline.

In an industry that is growing increasingly competitive on a global scale, it is vital to ensure a high degree of utilization for all the units. In the Petrobrazî refinery, we have started this process and have currently rolled out various programs to maximize its availability and utilization. As a result, the Petrobrazî refinery registered a high utilization rate of 93% in 2017, thereby making it a top refinery complex in Central and South-Eastern Europe.

Looking forward, the FCC unit will be instrumental in achieving OMV Petrom's 2021+ strategic goals, by capturing value-adding opportunities along the value chain and capitalizing upon the company's integrated business model. The unit will be the main supplier for the Polyfuel plant, an ambitious project applying high-end, environmentally friendly technology in the refining and petrochemical industry. Following an estimated investment of EUR 60 mn, the Polyfuel plant will be fully operational in 2019. It will convert olefins from LPG into more valuable products such as gasoline and diesel.







Reaching the destination: Sales activities

Delivering the results of our work to make people's lives better

The fascinating journey of hydrocarbons ultimately ensures our products meet the sophisticated needs of our customers. In this final stage of the journey, everything has the complexity and precision of a puzzle that needs to be solved in a timely and effective manner every time. For petroleum products, a vast system of transportation is engaged to move them from the refinery to product terminals and then to the points of sale via tanker trucks. For natural gas, a complex pipeline system ensures that it is transported to reach our clients and serve the various demands of modern life.

OMV MaxxMotion 100plus – the best quality fuel for our customers

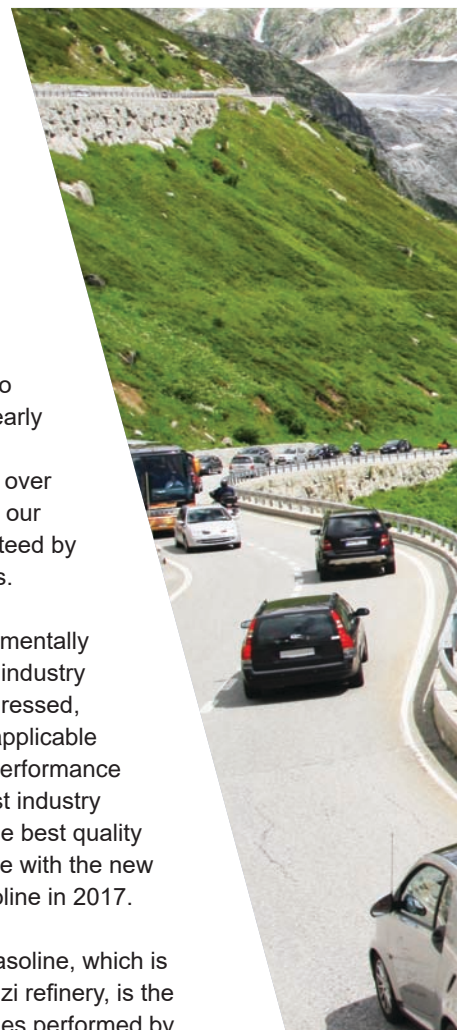
Petroleum products were first distributed across Romania in 1922. At that time, heavy fuel oil was home-delivered. When the refinery in Brazi was inaugurated 83 years ago, a major milestone was reached: the integration of fuel pumps into dedicated and specialized petrol stations. Since then, distribution activities have traveled a long path of innovation, modernization, and progress driven by customer needs.

Today, OMV Petrom filling stations are multifunctional service centers. More than two million customers enter our filling stations yearly to refuel, visit our VIVA shops, stock up on essentials for their journey, or simply relax over a coffee, while their cars are pampered in our Top Wash units, within a process guaranteed by quality standards and optimized controls.

Nevertheless, filling stations are fundamentally about fuel. As technologies in the car industry and in the engine industry have progressed, much higher quality standards are applicable for fuels in order to drive the best performance of engines. To respond to the latest industry trends and offer our customers the best quality products, we enhanced our range with the new OMV MaxxMotion 100plus gasoline in 2017.

This new high-performance gasoline, which is manufactured in the Petrobrazi refinery, is the result of development activities performed by OMV Group's innovating team and is based on a unique formula combining additives with a triple effect: cleaning, protecting, and preventing deposits in the engine. The result is a new generation fuel that takes care of the engine, extending its life and, at the same time, maximizing its performance.

The new OMV MaxxMotion 100plus gasoline tests showed that after prolonged use this new fuel is able to remove up to 63% of engine deposits. In addition, it may provide a protection against corrosion of up to 100%, and it can prevent up to 96% of deposits on inlet valves. OMV MaxxMotion 100plus is a fuel that guarantees an octane number of minimum 100 – the first fuel of this type in Romania – with direct impact on engine performance. Improved





combustion leads to superior acceleration, higher power, lower consumption, and extra miles. The new gasoline also contains special additives that minimize friction, thus increasing engine efficiency. Tests revealed an increase in engine power by up to 5% and the improvement of acceleration performance by up to 14%. The same additives also have a good influence on the reduction of emissions by maintaining a clean engine.

OMV MaxxMotion 100plus is the first fuel in Romania that fulfills the best quality rating by meeting the Worldwide Fuels Charter Category 5 requirements. Worldwide Fuels Charter is a document issued by associations of international vehicle and engine producers to establish quality

standards for fuels, whereas its most advanced Category 5 is subject to the strictest performance requirements. The new gasoline received the endorsement of well-known names in the automotive field. The famous rally driver Bogdan Marișca as well as BMW Group Romania experts recommend the new OMV MaxxMotion 100plus for its ability to deliver best performance with lower consumption.

With the OMV MaxxMotion Performance Fuels range, of which OMV MaxxMotion 100plus is part, we are setting new standards for excellent fuel quality. Going forward, we will continue researching new and alternative fuels to ensure the improved mobility of our customers in the future.



Continuous customer focus in our gas sales operations

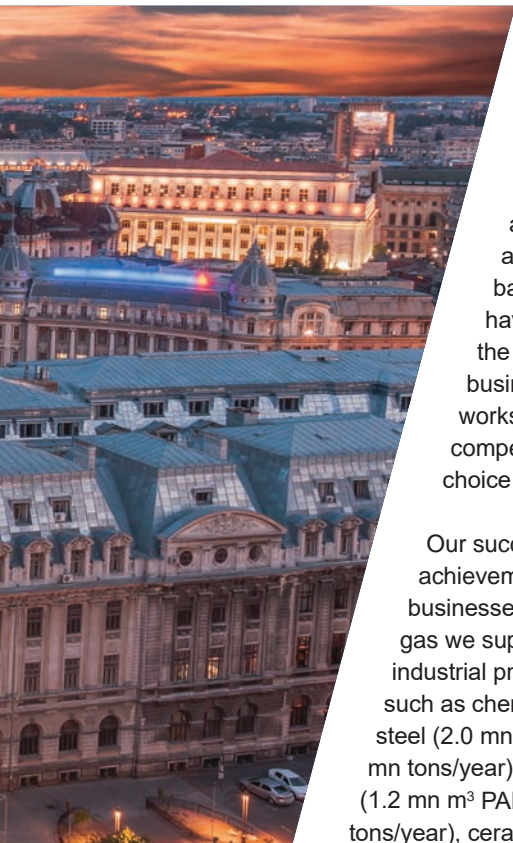
In Downstream Gas, we focus on providing the best energy solutions to our clients while building up long-term relationships. We have the responsibility to ensure a sustainable supply of energy for our clients. Therefore, we maintain a constant, steady, and safe supply of natural gas by capitalizing on our integrated business model. The result is a high level of customer satisfaction and long-term loyalty.

In 2010, all our natural gas sales activities were brought together under a single entity, OMV Petrom Gas S.R.L., a subsidiary of OMV Petrom, in order to strengthen interaction with our clients. Through our regional sales teams located in Bucharest, Cluj Napoca, Timișoara, and Iași, we are closer to our clients' businesses, thus ensuring a reliable partnership – the most appreciated quality of our relationship with customers. As our sales team has developed a solid portfolio of clients across the country, we have consolidated OMV Petrom's position on the natural gas market in Romania.

To better serve our clients, we started bundling natural gas sales together with electricity in 2013 in order to create integrated energy solutions, thereby increasing our competitiveness on the Romanian energy market. Our complex, full-range energy product portfolio allows us to deliver customized solutions for our clients' energy demands, thus helping to secure their business development.

The liberalization of the natural gas market has allowed medium-sized and small industrial consumers of natural gas to choose their natural gas supplier and opt for a committed partner who is able to provide solutions tailored to their needs. In this new market context, we focus on capturing available opportunities and diversifying our end-customer portfolio while maintaining the existing portfolio of large consumers.

We currently have a broad portfolio of end-customers, ranging from leading industrial players

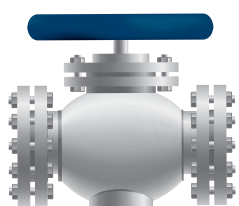


(the largest producer of fertilizers, the leader of the steel industry in Romania, the biggest Romanian refinery, tire manufacturers, heat and power producers, etc.) to medium-sized and small consumers (cement, construction materials, furniture, machinery and equipment, non-steel metals, paper and pulp, food and beverage, commercial, bakeries, services, etc.). All of our customers have different needs, for which we provide the best-suited solution. As a business-to-business natural gas supplier, OMV Petrom works continuously towards maintaining its competitiveness and remaining the supplier of choice for clients.

Our success is measured by our partners' achievements and the development of their businesses. We estimate that the natural gas we supply in Romania contributes to the industrial production of a variety of products, such as chemical fertilizers (1.4 mn tons/year), steel (2.0 mn tons/year), refined crude oil (5.5 mn tons/year), wood construction products (1.2 mn m³ PAL and OSB), cement (2.5 mn tons/year), ceramic household products (over 40.0 mn pieces/year), or pharmaceutical substances (over 3.0 mn injectable vials).

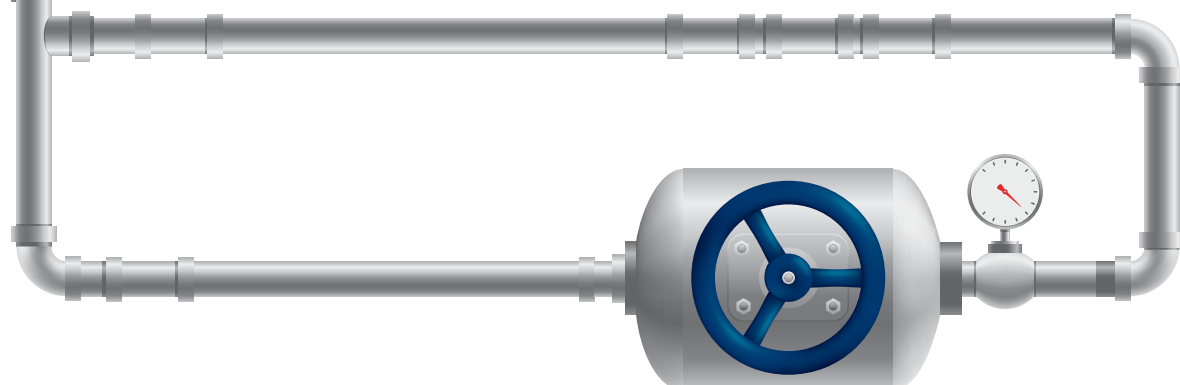
As ambassadors of clean energy for a better life, we are also deeply committed to acting responsibly for future generations. The combustion of natural gas produces significantly lower emissions compared to other fossil fuels. More specifically, natural gas combustion produces 50% less CO₂ emissions than coal. Furthermore, natural gas ideally complements the energy obtained from renewable sources, such as hydro, wind, or geothermal, thus ensuring a continuous and stable energy supply to consumers. It can contribute decisively towards achieving the European Union's target of reducing GHG (Greenhouse Gas) emissions by 80-95% by 2050 as compared to 1990 and, therefore, to the mitigation of risks caused by climate change. Thus, natural gas plays an extremely important role in providing cleaner energy in the long-term and to achieving our business objectives.





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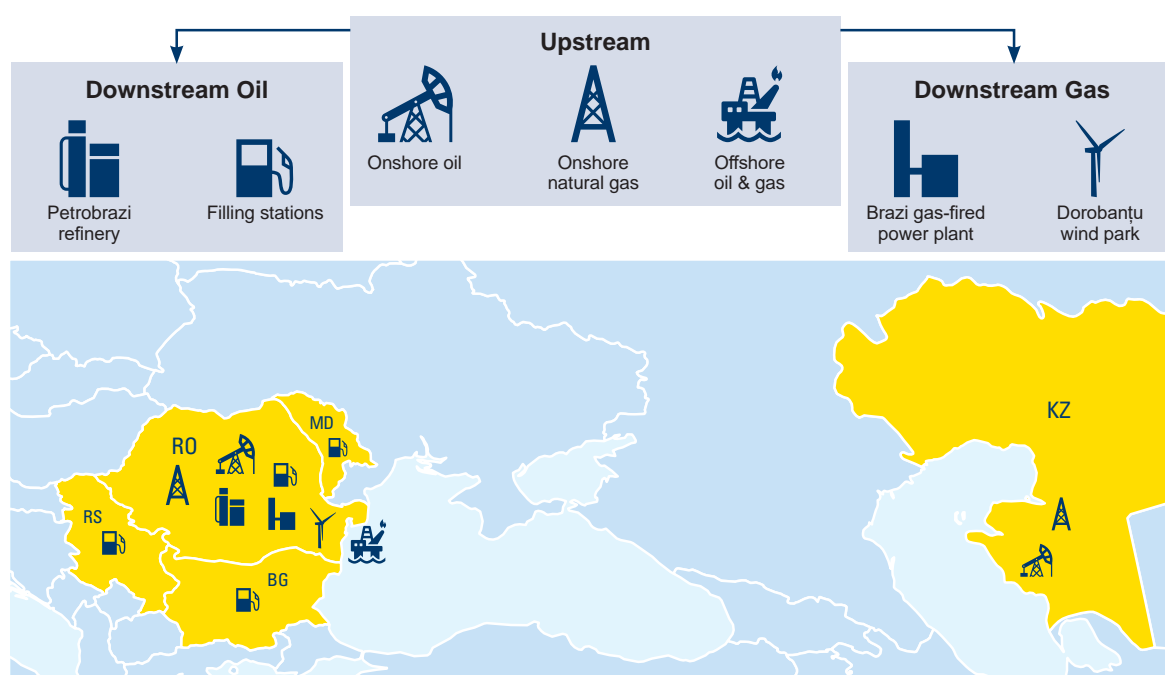


OMV Petrom at a glance

OMV Petrom is the largest integrated oil and gas group in Southeastern Europe and the leading industrial company in Romania. The Company is organized into three operationally integrated business segments – Upstream, Downstream Oil and Downstream Gas. In the Upstream segment, OMV Petrom is present in Romania and Kazakhstan, with a portfolio of 566 mn boe proved (1P) reserves and hydrocarbon production of around 61 mn boe in 2017 (thereof 3.8 mn tons of crude oil and natural gas liquids and 5.2 bn cubic meters of natural gas). The Downstream Oil portfolio comprises the Petrobrazi refinery which has a capacity of 4.5 mn tons per year and can process OMV Petrom's entire Romanian equity crude oil. It also includes a network of 786 filling stations located in Romania, Moldova, Bulgaria, and Serbia. These filling stations are operated using two brands: Petrom and OMV. The Downstream Oil segment generated 5.1 mn tons in refined product sales in 2017, of which 2.7 mn tons were retail sales. The Downstream Gas segment is the company's sole gas marketing channel, accounting for a sales volume of 51.4 TWh in 2017 (thereof 45.3 TWh to third parties). In 2017, the Downstream Gas portfolio comprised the 860 MW gas-fired power plant Brazi and the 45 MW wind park Dorobanțu, which cumulatively generated 2.7 TWh of electricity. At the end of 2017, the wind park Dorobanțu sale was finalized in line with the company's strategy of focusing on core activities.

OMV Petrom is part of the OMV Group, which is also an integrated, international oil and gas player. OMV Aktiengesellschaft, the holding company of the OMV Group and one of Austria's largest listed industrial companies, holds a 51.01% share in OMV Petrom. The Romanian state holds 20.64% of OMV Petrom shares, Fondul Proprietatea holds 9.99%, while 18.35% represents the free float traded as shares on the Bucharest Stock Exchange (BSE) and as GDRs on the London Stock Exchange (LSE).

Since its privatization, OMV Petrom has consolidated its position in the oil and gas market following a comprehensive modernization and efficiency enhancement program backed by investments of more than EUR 13.5 bn over the past 13 years. During this period, OMV Petrom has provided a stable base for Romania's economy as a reliable energy supplier, a major employer, and a significant contributor to the state budget. Creating value for our customers by increasing the satisfaction and experience of customers has been one of our prime objectives. The company considers its responsibilities to its employees and the environment to be a priority. To this end, OMV Petrom has worked hard to lower the lost time injury rate and to consistently reduce its greenhouse gas emissions and water intensity. In addition, OMV Petrom offered attractive returns to its shareholders by paying them dividends amounting to around EUR 1.1 bn from 2012 to 2017.



	2017	2016	Δ (%)
Sales (RON mn) ¹	19,435	16,647	17
Operating Result before depreciation (RON mn)	6,854	4,950	38
Operating Result (RON mn)	3,270	1,476	122
Net income attributable to stockholders (RON mn) ²	2,491	1,043	139
Clean CCS Operating Result before depreciation (RON mn) ³	6,725	5,100	32
Clean CCS Operating Result (RON mn) ³	3,273	1,700	92
Clean CCS net income attributable to stockholders (RON mn) ^{2,3,4}	2,488	1,162	114
Balance sheet total (RON mn)	42,059	41,414	2
Total equity (RON mn)	28,421	26,706	6
Net debt/(cash) (RON mn)	(2,897)	(237)	n.m.
Cash flow from operating activities (RON mn)	5,954	4,454	34
Capital expenditure (RON mn)	2,969	2,575	15
Free cash flow (RON mn)	3,508	1,559	125
Free cash flow after dividends (RON mn)	2,666	1,558	71
ROACE (%)	9.9	4.1	142
Clean CCS ROACE (%) ^{3,4}	9.8	4.5	118
Equity ratio (%)	68	64	5
EPS (RON/share)	0.0440	0.0184	139
Clean CCS EPS (RON/share) ³	0.0439	0.0205	114
Dividend (RON/share)	0.020 ⁵	0.015	33
Payout ratio (%)	45 ⁵	81	(44)
Total proved reserves as of December 31 (mn boe)	566	606	(7)
Total hydrocarbon production (mn boe)	61.18	63.74	(4)
thereof crude oil and NGL production (mn bbl)	27.33	29.15	(6)
thereof natural gas production (bcm)	5.18	5.29	(2)
Gas sales volumes (TWh)	51.40	50.36	2
thereof to third parties (TWh)	45.30	43.86	3
Net electrical output (TWh)	2.71	2.93	(7)
Refinery utilization rate (%)	93	89	5
Total refined product sales (mn t)	5.07	4.93	3
thereof retail sales (mn t) ⁶	2.70	2.56	6
Number of filling stations	786	783	0
Employees as of December 31	13,790	14,769	(7)
LTIR per one million hours worked (employees and contractors combined) ⁷	0.17 ⁷	0.21	(19)

¹ Sales excluding petroleum excise tax;

² After deducting net result attributable to non-controlling interests;

³ Adjusted for exceptional, non-recurring items; Clean CCS figures exclude special items and inventory holding effects (current cost of supply – 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 Excludes additional special income from a legal dispute reflected in the financial result;

⁵ Dividend subject to GMS approval on April 26, 2018;

⁶ Retail sales volumes refer to sales via Group's filling stations in Romania, Bulgaria, Serbia and Moldova;

⁷ Starting with 2017, according to IOGP (International Association of Oil and Gas Producers) reporting scope, the Non-Operated Assets (PEC Turnu, PEC Timiș, PEC Țicleni) are not considered in the Upstream safety statistics.

Statement and farewell note from the Chief Executive Officer

Sector and macroeconomic fundamentals largely supportive

Dear Shareholders,

In 2017, sector fundamentals were largely supportive as commodity prices and refining margins moved upwards yoy. In turn, increased fuel market competition in our operating region and uncertainties caused by numerous domestic regulatory and fiscal changes presented several challenges. The Romanian economy advanced strongly in 2017, by 7%, one of the highest growth rates in the EU. As was the case in 2016, domestic consumption was the main engine of growth, supported by tax cuts and sizable public sector and minimum wage increases, the latter in excess of productivity gains.

Upstream and Downstream contributed almost equally to the Clean CCS Operating Results

In this context, we achieved an excellent performance, with a Clean CCS Operating Result of RON 3,273 mn. Upstream and Downstream contributed almost equally to the result, as we capitalized on our integrated business model. We also continued our cost optimization program. This, coupled with increased revenues, translated into an operating cash flow of RON 6 bn, RON 1.5 bn higher yoy. We delivered on our promise of ramping up investments, mainly in Upstream, based on the value over volume principle, whereas in Downstream, we prepared for the Polyfuel project as well as for the 2018 turnarounds at the Petrobrazii refinery and Brazi power plant. This required capital expenditure to be increased by 15% yoy to RON 3 bn. We also paid dividends of RON 0.8 bn. As a result of these actions, our free cash flow after dividends improved to RON 2.7 bn. In addition, our balance sheet remained strong with cash reserves of RON 4 bn, which puts us in a strong position to finance our strategic projects and offer an attractive dividend to our shareholders going forward.

Looking at each business segment individually, in **Upstream**, we significantly benefited from better realized prices, but also from our continued efficiency enhancement measures. As a result, the Clean Operating Result tripled. The 7% yoy decline in OPEX to below USD 11/bbl partly offset the 3.7% decline in daily hydrocarbon production. We made progress towards simplifying our footprint by finalizing the transfer of 19 marginal fields and by considering the divestment of another 50 to 60 fields.



Despite strong competition in our region and the volatility of excise duties in Romania, we enjoyed better refining margins and increased demand for our products in **Downstream Oil** thanks to the favorable economic environment.

In **Downstream Gas**, we achieved improved performance of the power business, despite the partial unavailability of the Brazi power plant, supported by strong spark spreads and estimated insurance revenues.

Based on the results and strong free cash flow achieved in 2017, we, the Executive Board, proposed a **gross dividend of RON 0.020/share for the financial year – up 33% from the previous year and representing a 45% payout ratio** – which was subsequently approved by the Supervisory Board. This dividend is subject to the approval of the GMS to be held on April 26, 2018.

Thanks to Fondul Proprietatea's sale of a 2.57% stake via an Accelerated Book Building (ABB) in September 2017, our free float further increased

to 18.35%. This supported our yoy share price appreciation of 9.6%, resulting in an attractive total shareholder return of 15.3% (both indicators expressed in RON terms) together with the dividend. Stock liquidity also increased, with the average daily trading value up by around 50% to about EUR 0.6 mn (excluding the ABB).

Progress was also made towards the implementation of our **Strategy 2021+** objectives. In 2017, we continued to **enhance competitiveness** across all business segments. In the Upstream segment, we began streamlining the producing assets' portfolio, modernized more than 40 facilities from our 2021 target of 100, improved the MTBF (Mean Time Between Failures) indicator in Romania to 626 days, and ramped up drilling activity to maximize economic recovery. In Downstream Oil, we achieved an excellent performance with improved utilization and fuels and loss rates in our refinery. In Downstream Gas, we divested the Dorobanțu wind park and worked on capturing the highest integrated operational value, achieving a gas sales volume of 51.4 TWh and a net electrical output of 2.6 TWh in the Brazi power plant. Under the second strategic pillar "**developing growth options**", the potential development concept for the Neptun Deep project was selected. In Downstream Oil, we advanced with the construction of the Polyfuel plant. To enhance our customers' experience, we entered a partnership with Auchan Retail Romania to open convenience stores in Petrom-branded filling stations and started offering innovative OMV MaxxMotion 100plus gasoline in the OMV-branded stations. As for the third strategic pillar "**regional expansion**", we started screening opportunities in regions where our technical competencies and experience represent a competitive advantage.

Looking ahead, for the 2018-2021 period, despite a volatile operational environment that remains challenging, we are committed to achieving a positive free cash flow after dividends for the majority of the period, to maintaining a strong balance sheet, and to offering an attractive dividend to our shareholders. In order to achieve these objectives, our focus in 2018 remains to increase our CAPEX plans to RON 3.7 bn and to

contain the hydrocarbon production decline to approximately 4% yoy, excluding portfolio optimization initiatives. Based on the assumption of continued fiscal stability, the clarity of the legal and regulatory framework, and pending commercial viability, we are prepared to take a final investment decision regarding Neptun Deep in the second half of 2018; this is a key project that will contribute to our reserve replacement rate target to be reached by 2021.

Finally, since this is my last letter to you in my capacity as CEO of OMV Petrom, I have a few farewell comments. Over my twelve years at the helm of the company, I am proud and honored to have played a part in transforming OMV Petrom into a robust, dynamic, internationally competitive and highly profitable company and in defining its current 2021+ strategic directions. During this period, the company went through two major industry downturns and one financial crisis. I truly believe the organization has become much more mature and can now benefit from a new generation of leadership. In this context, let me welcome Christina Verchere, an exceptional professional who is joining OMV Petrom after having spent over 20 years in the industry, including in leadership positions at BP in the UK, the USA, Canada, and the Asia-Pacific region. I wish her and the Executive Board team all the best in successfully steering this great company into the future.



Mariana Gheorghe

Free float increase
supportive for attractive
total shareholder return

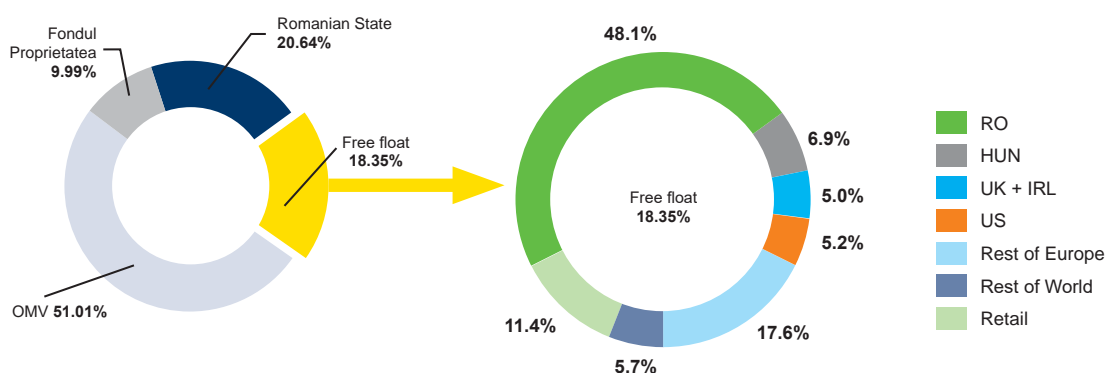
OMV Petrom on capital markets

Shareholder structure

At the end of 2017, OMV Petrom S.A. had the following shareholding structure: 51.01% – OMV Aktiengesellschaft, 20.64% – Romanian State (via the Ministry of Energy), and 9.99% – Fondul Proprietatea S.A. In September 2017, Fondul Proprietatea sold a 2.57% stake in OMV Petrom S.A. through an Accelerated Book Building (ABB) of shares and GDRs. The remaining 18.35%

represents the free float, traded as shares within the Premium category of the BSE and as GDRs within the Standard category on the main market of the LSE. At the end of 2017, around 510 legal entities from Romania and abroad held approximately 89% of the free float shares or 16% of OMV Petrom share capital, with the remainder (2% of capital / 11% of the free float) being held by almost 456,000 private individuals.

89% of the 18.35% free float held by institutional investors



An analysis of our shareholder structure as at end 2017 shows that 48.1% of the free float was held by Romanian institutional shareholders, 11.4% by retail investors, 6.9% were Hungarian institutional investors, 5.0% are from UK and Ireland, 5.2% are from the USA (GDR component included in this category), 17.6% are from other European countries, and 5.7% are from rest of the world.

Shares

OMV Petrom S.A. shares have been traded on the Bucharest Stock Exchange since September 3, 2001.

In 2017, the share price of OMV Petrom S.A. reached the **lowest level** for trades on the Regular market of RON 0.2775 in the first trading day of the year (January 3, when the highest daily share price appreciation of the year of 6.3% also occurred). The stock maintained an upward trend until mid-May, when the **maximum for the year** of RON 0.3365 was reached on May 19 (the last cum-dividend date). On the ex-dividend date of May 22, the share price corrected by less than the 2016 dividend per share of RON 0.015 (i.e. by

RON 0.010 or 3%). Moreover, at the end of May, the share price was up 2.3% month over month (mom).

A 2.4% decrease was recorded on September 20, when Fondul Proprietatea (FP) announced the sale of a 2.57% stake via an ABB. Another decline by 0.7% was recorded the next day when the ABB price was announced (RON 0.275/ share, the lowest price of the year). The share price recorded a significant decline in June (down 14.0% mom) and then partly recovered in July (up 11.3% mom) before continuing its slide (with mom declines of 4.9% in August, 3.7% in September, and 1.0% in October). These monthly evolutions were completely opposite of the Brent oil price developments for the respective months. In these months, OMV Petrom's share price also underperformed the BET index by 2.2 percentage points (pp), 1.5 pp, and 0.6 pp respectively.

Despite the ups and downs in 2017, OMV Petrom's share price appreciated overall, **closing the year at RON 0.286**, up 9.6% yoy and slightly

Share price ranged between RON 0.2775 and RON 0.3365

outperforming the BET index by 0.14 pp. **The total shareholder return** (including the dividend of RON 0.015/share for the 2016 financial year) was **15.3%**.

The average share price of OMV Petrom for trades on the Regular market was RON 0.3011 in 2017, 23.5% higher than the 2016 figure of RON 0.2439, a similar increase with the one for the average Brent oil price (by 24%).

OMV Petrom S.A. **market capitalization** at the end of 2017 was RON 16.2 bn (EUR 3.48 bn), accounting for 10% of the total market capitalization of the companies listed on the BSE and for 22% of the capitalization of the BET index (representing the 13 most liquid blue-chip stocks listed on the BSE).

Excluding the ABB, the **total traded volume** in OMV Petrom shares was of 2.18 bn in 2017, up

15% yoy, while the **traded value** was RON 656 mn, up 46% yoy. If only the Regular market is considered, trades totaled 1.99 bn shares, up 41.8% yoy and RON 598.3 mn, up 76.7% yoy.

The **average daily traded volume** was 8.8 mn shares (including Deal trades, but excluding the ABB transaction), up 18% yoy, while **the average daily traded value** was RON 2.65 mn, up 49.4% yoy (EUR 0.58 mn).

Average traded value
up almost 50% yoy

In terms of the development of domestic indices, 2017 was a better year than 2016. The **BET index** increased by 9.4% yoy, while the **BET TR (total return BET)** appreciated 19.1% yoy. The **BET-NG index** (comprising stocks in the energy and utilities sectors) in which OMV Petrom S.A. has a 30.7% weight, increased by 10.8%. Compared to 2016, the **BET-BK index** (designed as a benchmark for asset managers and institutional investors) grew by 22.8% in 2017.

OMV Petrom S.A. share symbols

ISIN	ROSNPPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNP.BX

At a glance

	2017	2016	Δ (%)
Number of shares (mn)	56,644.1	56,644.1	0
Market capitalization (RON mn) ¹	16,200	14,784	10
Market capitalization (EUR mn) ¹	3,477	3,256	7
Year's high (RON)	0.3365	0.2915	15
Year's low (RON)	0.2775	0.2155	29
Year end (RON)	0.2860	0.2610	10
EPS (RON/share)	0.0440	0.0184	139
Dividend per share (RON)	0.0200 ²	0.0150	33
Dividend yield ¹	7.0%	5.7%	23
Payout ratio ³	45%	81%	(44)

¹ Calculated based on the closing share price as of the last trading day of the respective year

² Dividend subject to GMS approval on April 26, 2018

³ Computed based on the Group's 2017 net profit attributable to stockholders of the parent

GDR price ranged between USD 9.14 and USD 10.95

Global Depositary Receipts (GDR)

The **GDR price in the last day of trading** in 2017 was USD **10.95**, translating into a 19.8% yoy increase. In 2017, the GDR price ranged between a USD 9.14 **low** (on January 3) and a USD 12.45 **high** (on August 16).

310,849 GDRs were traded in total during the year, while the **daily average number of GDRs** was 1,224. These unfavorably compare with the values for the period October 20, 2016 (the debut of the GDR listing on the LSE) to December 29, 2016 of 939.4k (total) and around 19k (daily average).

The highest monthly trading volume was reached in January (115,452 GDRs), worth USD 1.16 mn, while the lowest trading volume occurred in June (when there were no trades).

The total value of GDRs traded in 2017 was USD 3.4 mn, significantly below the value of around

USD 7.8 mn achieved in the first months of trading GDRs on the LSE (October to December 2016).

95,900 GDRs were issued and 784,027 GDRs were cancelled during 2017 (**net cancellations** at 688,127). The number of GDRs outstanding as at the end of each month ranged between 988,932 (September) and 1,756,419 (January). The **number of GDRs outstanding at the end of December** was 1,068,292. As a reminder, 2,492,328 GDRs were issued (one GDR = 150 shares) in the October 2016 Secondary Public Offering (SPO).

From 2016 to 2017, the European and US indices increased on the financial markets: the DAX went up by 12.5%, FTSE 100 rose by 5.5%, Dow Jones Industrial average jumped by 25.1%, while the FTSE Global Energy Index, comprising the world's largest oil and gas companies, increased marginally by 2.1%.

OMV Petrom S.A. GDR symbols

London Stock Exchange Regulation S	PETB
ISIN Regulation S GDR	US67102R3049
London Stock Exchange Rule 144A	PETR
ISIN Rule 144A GDR	US67102R2058

Own shares

At the end of 2017, OMV Petrom S.A. held a total number of 204,776 own shares, representing 0.0004% of issued share capital. In 2017, OMV Petrom did not buy back or cancel any Treasury shares.

Investor Relations (IR) activities

Throughout 2017, the company's top management and the Investor Relations (IR) team had an active presence on the local and foreign capital markets. Throughout the year, contact was maintained by regularly organizing meetings and conference calls with both local and foreign institutional investors and analysts. As usual, our company organized and broadcasted four live presentations of its quarterly financial and operating results during audio webcasts and conference calls. These events attracted 74 investors and analysts from

financial institutions and investment funds, with approximately 18% of them actively participating in the presentations by asking questions.

Additionally, OMV Petrom attended **seven analyst and investor conferences**, compared to four in 2016, of which two were held in London (UK), and one in each of the following cities: Zurs and Stegersbach (Austria), Bucharest (Romania), Warsaw (Poland), and Prague (Czech Republic). The company also attended three non-deal road shows, of which one in Warsaw, Stockholm, Tallinn and Prague, after the publication of the 2016 financial year results, one in Frankfurt and one in New York and Boston, the last two after the publication of the Q1/17 results.

In February 2017, OMV Petrom also organized its **first Romanian Investor and Analyst Day**. The

First Romanian Investor and Analyst Day organised by OMV Petrom

event was attended by 30 analysts and portfolio/ investment managers who had the opportunity to meet all Executive Board members and gain a better understanding of the company's updated Strategy 2021+ as well as of its Q4/16 and 2016 financial year results.

As in 2016, a retail investors' event was organized at our headquarters in 2017, during which around 20 retail investors had the opportunity to meet OMV Petrom's CEO.

All these events maintained a high level of accessibility for analysts and investors who had the opportunity to directly address questions to the company's top management team as well as to the IR representatives. In 2017, about **100 one-to-one or group meetings** were held during these events or as part of meetings held at the company's headquarters, as well as around **55 conference calls**, which provided occasions for the company representatives to interact with representatives of around 180 investment funds and about 200 investors.

Furthermore, OMV Petrom IR improved interaction with financial market participants by introducing **quarterly mini surveys** aimed at identifying analysts' perception of the company in terms of its strengths, weaknesses, and areas of misunderstanding. We also launched a new IR product, the **quarterly Trading Update of Key Performance Indicators (KPIs)**, to complement information on OMV Petrom that was previously included in our parent company's (OMV) Trading Statement. As part of the quarterly reporting package, OMV Petrom started publishing a **Factsheet** as well as the Q&A section of the quarterly conference calls on its corporate website. In the interest of transparency and timeliness, all company reports, releases, and important information for shareholders, analysts, and investors are promptly disseminated on the BSE and LSE websites and also posted in the Investor Relations section on the company's website www.omvpetrom.com.

Analyst coverage

The research coverage by sell-side analysts remained constant. Concorde Securities initiated coverage and UniCredit ceased coverage on OMV Petrom after its non-Polish operations closed. The

quality of coverage improved thanks to a rising number of analysts providing reports on a more regular basis.

At the end of 2017, **OMV Petrom stock was covered by eight analysts**, of whom six or 75% had "Buy" ratings (end of 2016: 67%), while two or 25% had "Hold" ratings (end 2016: 33%). There were no analysts with "Sell" ratings. **The median target price** according to analyst consensus estimates was RON 0.3625 (translating into a 26.7% upside potential compared to the share price of RON 0.286 on the last day of trading in the year).

Dividends

The Supervisory Board has approved the Executive Board's proposal to the Ordinary GMS to distribute a gross dividend per share of RON 0.020 for the year 2017. This translates into a total cash outflow of RON 1,133 mn, a payout ratio of 45% of the Group's 2017 net profit attributable to stockholders of the parent, or 32% of the Group's 2017 free cash flow, which is in line with the current dividend policy. The proposal is subject to the approval of the forthcoming Ordinary GMS on April 26, 2018.

Research coverage
stable with eight
analysts

OMV Petrom – a leaner, more efficient and resilient company

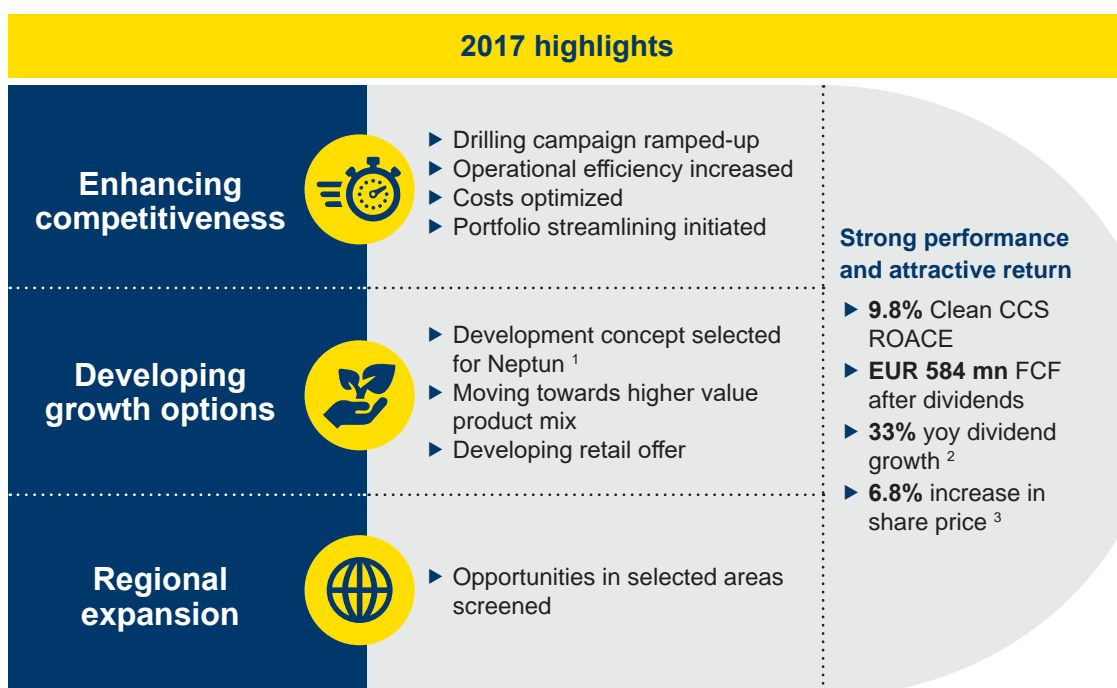
In these rapidly changing times, it is OMV Petrom's commitment to provide **sustainable access to energy for everyday modern life**. This requires a great sense of corporate responsibility but, at the same time, unlocks new strategic opportunities. We are an important energy source for our customers and business partners, for a wide range of industries, and for the community.

In recent years, OMV Petrom has become a leaner, more efficient, and more resilient company with the purpose of ensuring a profitable business in the long run. 2017 was an important year in OMV Petrom's corporate development, as we have set clear and more ambitious objectives for the next five years and beyond in the "Strategy Update 2021+". Launched in February 2017, following a comprehensive review of strategic options and priorities, the updated strategy builds on the solid foundation of previous years' performance to generate sustainable value

creation and defines our path to long-term success.

OMV Petrom is committed to maintaining and strengthening its position **as a leading integrated energy player in the region**. Thus, our focus is on the opportunities that our home market Romania still offers, complemented by selective regional investments, while enhancing customer experience by offering high-quality products and services.

Our Strategy 2021+ centers on three strategic pillars that contribute to our commitment to offer attractive shareholder return: **enhancing the competitiveness of the existing portfolio, developing growth options, and regional expansion**. Embedded into OMV Petrom's strategic directions under each of these pillars are three strategic enablers: *People and Organizational Culture, Sustainability, and Technology and Innovation*.



¹ Development subject to confirmation of commercial viability;

² Dividend subject to GMS approval on April 26, 2018;

³ Share price as of December 29, 2017 compared with share price as of December 30, 2016, adjusted for EUR/RON exchange rate.

Enhancing competitiveness in the existing portfolio

The first strategic pillar's underlying objectives are to improve agility and increase operational efficiency along the value chain by focusing on the areas where we can best pursue a competitive advantage. In 2017, we continued to improve competitiveness across all business segments, with focus on **value over volume**.

In the pursuit of long-term sustainability, realizing the potential of producing assets and streamlining the portfolio remain key strategic directions in **Upstream**. A first step was taken by transferring 19 marginal fields to Mazarine Energy Romania, a transaction which was announced in October 2016 and closed in August 2017. Following the transfer of these fields, OMV Petrom operated a total of 208 commercial oil and gas fields in Romania at the end of 2017. At the same time, a new divestment campaign, with approximately 50 - 60 fields, was initiated and is now in the evaluation phase. Disposing of non-core assets and marginal fields, together with the centralization of activities, leads to the **simplification of our operational footprint**, enabling us to concentrate our efforts on the fields that generate the most value.

In order to maximize the economic recovery from current assets, our ambition is to reach average ultimate recovery rates of 28% for oil and 55% for gas. This should result in an additional around 150 mn boe of reserves from our existing resources (calculated for the life of the field). This objective will require drilling deeper, more complex wells, and extending infill drilling, along with continuous reservoir studies and the diversification of recovery techniques. To this end, **drilling activities were ramped up** in 2017, with a total of 69 new wells and sidetracks drilled, a significant increase from only 36 wells drilled in 2016.

The modernization of existing facilities in Upstream further supports our pursuit of **operational excellence**. From the 2021 target of 100 additional modernized facilities, 2017 saw the finalization of modernization works for more

than 40 facilities. The Well Automation project continued in 2017, reaching 4,800 automated oil, gas, and injection wells, which represent more than 50% of our active wells' portfolio. In 2017, we further improved the Mean Time Between Failures (MTBF) in Romania to 626 days, thus making good progress towards achieving the 2021 target of 750 days.

In **Downstream Oil**, the focus remained on capturing the **highest integrated operational value**. The high-quality execution of projects, together with rigorous maintenance and efficient operations, led to an excellent overall performance. A high utilization rate of 93% was achieved in 2017 at the Petrobrazi refinery, alongside an improved fuel and loss level, below 9%. To maintain a high level of competitiveness, the turnaround cycle of the Petrobrazi refinery will change starting in 2018, switching from two years to four years, in line with international best practices. The modernization of the fuel storage network, which will be completed in 2018 with the finalization of the Arad terminal revamp, will lead to a higher efficiency level of operations.

In **Downstream Gas**, we have taken steps to increase both the competitiveness of our product portfolio and contribution from end customers, towards achieving the long-term strategic goal of consolidating our **leading position in the Romanian gas market**. As a result, we achieved higher gas sales volumes of 51.4 TWh in 2017 and managed to expand and diversify our sales channels. Sustaining our integrated business model, the Brazi power plant generated a net electrical output of 2.6 TWh in 2017, despite its limited availability due to the malfunctions of two turbines' transformers, as compared to 2.8 TWh in 2016. As part of our portfolio optimization, the Dorobanțu wind park was divested in 2017 so that we can concentrate on our core activities.

Developing growth options

Our strategy's second pillar consists of identifying new opportunities for organic growth upon which OMV Petrom can capitalize. In **Upstream**, the strategic thrust centers on the Neptun Deep project (50% OMV Petrom;

Portfolio streamlining initiated

Refinery turnaround cycle of four years starting 2018

Potential development concept for Neptun selected

50% ExxonMobil Exploration and Production Romania Limited), which has been matured in 2017 through the concept selection phase. The engineering activities were continued, the conceptual evaluation work was concluded and a **potential development concept** was selected for both the Domino and Pelican South gas discoveries, moving on with the commercial viability assessment. The preferred concept would consist of subsea development wells tied to a shallow water platform for gas treatment and include a 160-km subsea pipeline to shore. Neptun Deep's onshore facilities would consist of a metering station and related equipment. Based on the assumption of continued fiscal stability, the clarity of the legal and regulatory framework, and favorable gas market developments, the current schedule would enable us to take a potential Final Investment Decision in the second half of 2018. If commercially viable, first production would occur at the beginning of the next decade, turning the Neptun Deep project into a key contributor to our RRR target.

In **Downstream Oil**, the construction of the **Polyfuel plant** in the Petrobrazi refinery has progressed well and the unit will be fully operational in early 2019. The plant, an investment of approximately EUR 60 mn, represents the first of its kind for the OMV Group and will employ state-of-the-art and environmentally friendly technology. Alongside a more flexible refinery production structure, this project will enable an increased output of high-demand and high-value products by converting up to 50,000 tons/year of LPG into diesel and gasoline.

In the retail business, growth is driven by our ability to provide a differentiated offer and enhance our **customers' experience**. In 2017, we entered a partnership with Auchan Retail Romania to open convenience stores at Petrom's branded filling stations. The stores, operated under the MyAuchan brand, are the first convenience stores opened at filling stations in Romania. The partnership's current pilot phase consists of 15 such stores. This initiative

Partnership with Auchan initiated

contributes to the consolidation of the **"value for money"** positioning of the Petrom brand. Under the OMV brand, we offer a comprehensive range of high-quality products and services. In June 2017, OMV Petrom started offering the new **OMV MaxxMotion 100plus** gasoline, with a special formula that prolongs the life of the engine and ensures the best driving experience. Furthermore, the cooperation with digital and banking services partners in 2017 has supported innovation and strengthened OMV's brand positioning as a **"high quality leader"**.

In 2017, we achieved a **throughput per filling station of 4.95 mn liters** in Romania, an increase of 0.32 mn liters as compared to 2016. Furthermore, in our effort to better serve our customers and meet their demands, we are committed to investing in new filling stations in high traffic areas.

Regional expansion

As part of the Strategy 2021+, opportunities for regional expansion in Upstream and Downstream Gas will be a source of inorganic growth for the company and will strengthen OMV Petrom's position not only within the OMV Group but also among international oil and gas industry players.

In **Upstream**, we will concentrate on the regions where our technical competencies and experience represent a competitive advantage, such as the Western Black Sea and the Caspian region. We have started screening opportunities in this part of the world and, based on first encouraging results, are maintaining our strategic target of adding approximately 80 mn boe reserves from near-term acquisitions.

Regarding the strategic direction of **Downstream Gas** to become a regional player, activities for creating an entry into neighboring gas markets have started while progress has been made to complete the milestones that enable the Final Investment Decision for the Neptun Deep project and that are related to long-term sales and transportation agreements. As the Neptun Deep project comes on stream, subject to the

confirmation of commercial viability, regional expansion will become an important element of monetizing gas from the offshore Black Sea area.

Key targets for successful strategy implementation

Clear, robust targets measure the implementation of our strategy. We need to achieve 100% RRR to secure the long-term future of the business. We are committed to identifying and developing value-adding projects in an aggregated amount of EUR 5 bn over the period 2017 – 2021. Clean CCS ROACE of more than 10% is set as a clear target to be achieved by 2021 maintaining a strong balance sheet and a positive free cash flow after dividends for the majority of the period while delivering an **attractive dividend**.

Strategic enablers

Three strategic enablers are central to the execution of OMV Petrom's strategy: our two traditional vectors *People and Organizational Culture* and *Sustainability*, accompanied by *Technology and Innovation*, which was added recently due to the growing importance of new technologies and digitalization.

People and Organizational Culture

The success in achieving our business targets can only be achieved through OMV Petrom's human resources and skills. We place people at the core of our business and aim to create a workplace that is fulfilling, diverse, and learning-oriented, to engage talented teams to promote safe and efficient business performance. Our priorities for this strategic enabler include the following: inspiring leaders, performance-focused and principle-led behavior, organizational agility and excellence, and a great place to work for employees. The five principles of our organizational culture, **Team Spirit**, **Accountability**, **Passion**, **Pioneering Spirit**, and **Performance** are integrated within all levels of the Strategy 2021+, as it is the people who ultimately drive strategy and growth.

Sustainability

As we focus on conducting our business

responsibly, efficiently, and in an innovative way, *Sustainability* is an important enabler for the implementation of our strategy. We are committed to creating long-term value for the company and our stakeholders while respecting the environment, supporting the communities in which we operate, and considering the UN's Sustainable Development Goals. As per the legal requirements with reference to the disclosure of non-financial information, OMV Petrom will prepare and publish a separate sustainability report for 2017. It will cover non-financial reporting topics and describe our sustainability initiatives. The **OMV Petrom Sustainability Report 2017** will be published by June 30, 2018.

Technology and Innovation

The ambitious objectives set in the Strategy 2021+ can only be achieved through the company's support for a **culture of innovation**, the development of employees' digital skills, and the successful implementation of **advanced technologies**. The new *Technology and Innovation* key strategic factor has the following priorities: make existing business more competitive, develop growth options, and create a more agile and efficient organization.

OMV Petrom's commitment to new and innovative technologies is already reflected in projects being implemented throughout the organization. In Upstream, the **Digital Oil Field** enables OMV Petrom to remotely monitor and optimize operations, maintenance data, and activities. In 2017, the usage of standardized NarrowBand Internet of Things (NB IoT)¹ technology in the oil and gas industry – which is an absolute first for Romania – was successfully tested in partnership with Vodafone Romania to ensure the connectivity of wells and equipment in isolated areas.

Within the scope of the **New Technology Program** in Upstream, new and modern technologies with high potential for increasing production, reducing costs, and improving HSSE are tested. In 2017, more than 20 technology pilot projects focusing on improving artificial lift, sand control, and well integrity were initiated in OMV

Clean CCS ROACE target of more than 10% by 2021

Partnership with Vodafone for wells' connectivity in isolated areas

¹NB IoT will connect millions of objects – from sensors, meters, cars, and appliances up to oil, gas, and water pipes – and will significantly widen the existing range of IoT solutions. This technology has the potential for high applicability across object-to-object communication, both related to smart homes as well as to the development of new applications for different industries.

Petrom. **Predictive analytics** are expected to maintain critical equipment much more effectively in both domestic Upstream and Downstream refining. In the retail segment, predictive analytics are used to process data collected at our filling stations and show customer preferences that allow us to further enhance our offering.

OMV Petrom has proactively embraced the digital transformation journey and will continue to challenge existing business models to be prepared for the future. Innovation and digitalization complement the professionalism and experience that have shaped the long road taken by the company thus far.



Business environment

Global macroeconomic and sector trends

In 2017, the global economy grew by an estimated 3.7%, half a percentage point faster compared to the previous year. The robust pace of economic expansion showed increasing signs of synchronization and benefited from favorable global financial conditions and strong consumer confidence. After years of cautious approach, business investment has started to grow more solidly. This was supported by the ongoing reduction of economic slack and increased capacity utilization. Higher activity levels pushed up the global composite output Purchasing Managers' Index by almost 8% last year. Consequently, the world trade volume in goods and services rose by 4.7% on an annual basis, almost double yoy. The US economy advanced by 2.3% in 2017, marking its eighth consecutive year of growth. Business investments accelerated, especially in the second half of the year, as optimism among US small businesses spiked to levels not seen in decades. The landmark US tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments, further stimulated activity in the USA. The tightening of labor and rising inflation created conditions for the continued gradual removal of monetary policy accommodations by raising interest rates. In Asia, economic activity was strong in both Japan and China, with GDP growing by 1.8% and 6.8% respectively. In the UK, uncertainties related to the country's future deal regarding its access to EU markets hampered growth, which slowed to 1.7%, the weakest rate in five years. The eurozone posted a broad-based and solid expansion supported by consumer spending and net trade. Its GDP growth advanced by 2.4%, helped by the marked performance of Germany, its largest contributor, whose economy powered forward by 2.5%.

In 2017, consumer price inflation in advanced economies rose to 1.7%, more than double compared to 2016. In the USA, annual inflation increased to 2.1% as excess demand pressures started to show up in price increases. At the end of the year, eurozone headline inflation stood

at 1.4%, aided by the subdued effects of the underlying inflation components. The impact of euro appreciation had a downward pressure on the eurozone inflation, more than offsetting the rise in global producer price inflation.

In 2017, total **global oil demand** rose by 1.6% to 97.8 mn bbl/d compared to 2016. Strong demand growth in OECD (Organisation for Economic Co-operation and Development) Europe and the USA in the first half of 2017, largely due to lower oil prices, weakened in the second half of the year. The Asia-Pacific region accounted for the largest share in global demand growth. From the annual increase of 1.6 mn bbl/d, 1.1 mn bbl/d were attributable to this region. Europe's oil demand accounted for the rest, while demand in all the other regions (i.e. Africa, the Americas, the Middle East and the former Soviet Union states) remained virtually unchanged. **Global oil supply** reached 97.3 mn bbl/d, up slightly by 0.4% compared to 2016. OPEC and other major producers, led by Russia, agreed to maintain oil production cuts until the end of 2018. Since agreeing upon the pact at the end of 2016, global inventories of oil have fallen and oil prices have risen. OPEC's compliance with supply cuts was very high in 2017 (about 95%). It reduced its collective output by 0.4 mn bbl/d to 39.2 mn bbl/d. The deepest cut was undertaken by Saudi Arabia. Its oil output dropped by 3% or more than 0.4 mn bbl/d in 2017. Venezuela sustained the largest unplanned fall in production by 12% or 0.3 mn bbl/d, as the country's economic crisis had an impact on the oil sector. The increase in the oil price stimulated the US shale oil production, which went up by a remarkable 5% or over 0.6 mn bbl/d in 2017. Together, Libya, Canada and Iran pumped 1 mn bbl/d more in 2017 compared to the previous year.

The average Brent oil price staged a recovery in 2017 and rose for the first time in five years by a hefty 24% to USD 54.2/bbl. Oil prices rebounded strongly in the second half of the year as news on the drawdown in the US inventories and a positive outlook on oil demand raised hopes of a faster elimination of the existing global oil excess supply.

Global oil demand increased more than supply

Brent oil price up 24% yoy

Romania's GDP grew
by 7% yoy

The gap between Brent and Urals oil prices narrowed in 2017 to USD 0.96/bbl, from USD 1.6/bbl a year earlier. In 2017, the average Urals price was USD 53.2/bbl, 26% higher compared to 2016.

Romania – macroeconomic and sector trends

Official preliminary data showed that Romania's economic growth advanced at an annual rate of 7% in 2017, above expectations. The strong economic performance was driven by domestic consumption which, in turn, was supported by successive increases in minimum and public-sector wages. The one percentage point reduction in the VAT also marginally helped consumption growth. Spurred by increased non-food and fuel sales, retail trade rose by 10.7%. Households' purchasing power continued to increase in 2017, surging by 14% in real terms, as nominal wage growth outpaced inflation. Despite this, however, consumer confidence, while starting the year on an optimistic note, worsened substantially in the last quarter of the year. The sustained double-digit increase in wages raised concerns about maintaining the economy's productivity growth. Notably, wages in the public sector advanced rapidly, widening the gap to both the industry and the economy wide average wages.

Up by 8.2%, industry had a spectacular run in 2017, the highest rate in more than a decade and a half. Its growth was aided substantially by increased demand in Europe. Manufacturing was the main engine of growth, but mining and quarrying also recorded a positive performance after the sizable drop it underwent in the previous year. Instead, construction registered yet another dismal year, with the activity volume falling by 5.4%.

Higher commodity
prices fueled inflation

Higher domestic excess demand was increasingly met by larger imports. The trade balance deficit deepened to EUR 4 bn, rising by 170% as the rate of imports growth exceeded that of exports. Services recorded again a substantial surplus, but registered only a marginal increase compared to 2016. The transport services balance, which accounts for almost half of the services trade balance, remained virtually unchanged compared

to the previous year, while the goods trade balance widened by a third to the equivalent of -6.5% of GDP. Consequently, the current account deficit reached EUR 6.5 bn in 2017, the equivalent of -3.3% of GDP, almost doubling in absolute terms compared to a year ago. Foreign direct investment failed to record the positive evolution it had in 2016 and remained at EUR 4.5 bn.

Fiscal policy continued to be pro-cyclical in 2017. Although the government budget deficit was kept in control, marginally lower than the -3% of GDP Maastricht criteria, this came at the cost of a significant reduction in public investments. Actual spending on public investments amounted to EUR 5.7 bn, the equivalent of 3.1% of GDP, the lowest level in a decade. This was far below the envisaged EUR 8.5 bn target set out in the government's budget spending plan at the beginning of the year. The increase of the fuel excise duty in September/October also helped garner some extra revenues which, together with the amounts saved from spending cuts, went towards financing higher public wage expenditures. These account now for a quarter of the total government spending. Strong economic growth led to an increase of 12.5% in budget revenues. Nevertheless, government spending rose even faster by 15.5% and outpaced the growth of revenues. In 2017, the labor market tightened even more as demand for labor remained elevated in the face of accelerated economic expansion. The unemployment rate dropped to 4.6%, almost one percentage point lower compared to the previous year.

Annual average Consumer Price Inflation (CPI)

went up to 3.3% at the end of 2017, with increased excess demand starting to put upward pressure on prices. In addition to domestic inflation triggers, higher global commodities and oil prices, aided also by a mild depreciation of the exchange rate, increased imported inflation. Monetary policy remained largely accommodative in 2017, with the benchmark interest rate maintained at 1.75%.

The monthly volatility in the RON/EUR exchange rate increased marginally in 2017, but remained

at low levels. In 2017, the RON fell against the EUR by 1.7%, but rose slightly against the USD by 0.2%.

The rate of growth of Romania's **energy supply** increased its pace in 2017 by 3.3% or to 34.3 mn tonne(s) of oil equivalent. The total supply of oil, gas, and coal was higher, but for power it

fell compared to 2016. Domestic production and imports of total primary energy resources rose, by 4% and 2.3%, respectively. Oil imports went up by 3.8%, or 0.3 mn tonnes, but gas imports fell by 10%. Oil imports accounted for almost 70% of total oil demand, while gas imports dropped to 10% of the country's total gas demand.

Business segments' operational performance

Upstream

At a glance ¹

	2017	2016	Δ (%)
Segment sales (RON mn) ²	8,217	7,303	13
Operating Result (RON mn) ³	1,661	401	314
Special items (RON mn)	(13)	(174)	93
Clean Operating Result (RON mn)	1,674	575	191
Operating Result before depreciation (RON mn)	4,323	3,094	40
Capital expenditures (RON mn)	2,435	2,119	15
Exploration expenditure (RON mn)	235	338	(30)
Total Group production (mn boe)	61.18	63.74	(4)
thereof in Romania (mn boe)	58.63	60.66	(3)
Sales volumes (mn boe)	57.8	59.9	(3)
Production costs (opex in USD/boe) ⁴	10.90	11.69	(7)
Proved reserves as of December 31 (mn boe)	566	606	(7)
thereof in Romania (mn boe)	542	582	(7)

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 60-71;

² Including inter-segment sales;

³ Excluding intersegmental profit elimination;

⁴ OMV Petrom aligned the production cost definition with its industry peers. Administrative expenses and selling and distribution costs are excluded from 2017 onwards. 2016 OPEX figures were re-calculated accordingly.

HSSE is Upstream's first priority

The overall HSSE focus was further strengthened in 2017 and additional improvement measures are being implemented. The Upstream LTIR (employees and contractors combined) reached the lowest level ever of 0.20 ⁱⁱ, below international benchmark. In 2017, for the first time, OMV Petrom Upstream segment recorded no work related fatality, achieving the best safety performance ever.

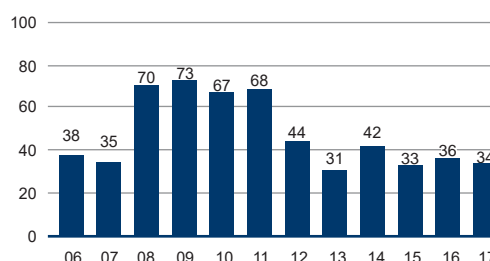
Reserve replacement rate (RRR)

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).

For the single year 2017, the Group's **reserve replacement rate** was 34% (2016: 36%), while in Romania it increased to 33% (2016: 29%).

OMV Petrom Group was able to keep its reserve replacement rate at around 35% in the last three years, mainly thanks to continuous reservoir studies performed, supported by drilling programs, diversification of recovery techniques and new extensions of existing fields.

Reserves replacement rate (%) in OMV Petrom Group



RRR maintained at around 35% in the last three years

ⁱⁱ Starting with 2017, according to IOGP (International Association of Oil and Gas Producers) reporting scope, the Non-Operated Assets (PEC Turnu, PEC Timiş, PEC Ţicleni) are not considered in the Upstream safety statistics.

Romanian Upstream operations

Exploration

2017 was an active year in planning and drilling of exploration wells. A few projects have been slightly delayed due to permitting and rig markets related issues. Prime focus was on the execution of exploration drilling projects.

In 2017, we spudded seven exploration wells, thereof two in partnership with Hunt Oil.

By the end of 2017:

- ▶ 2 wells, found dry, were plugged and abandoned;
- ▶ 1 well was a subcommercial discovery and was plugged and abandoned;
- ▶ 2 wells were in testing phase;
- ▶ 2 wells were still in drilling, one of them with hydrocarbon shows.

Production

At the end of 2017, OMV Petrom operated 208 commercial oil and gas fields in Romania. Including the effect from the Mazarine divestment, in 2017 OMV Petrom produced from all the commercial fields a daily average volume of 160.6 kboe/d, compared to 165.8 kboe/d in 2016.

OMV Petrom produced in Romania 3.5 mn t of crude oil and NGL and 5.14 bcm of natural gas, the equivalent of 58.63 mn boe total oil and gas. Offshore production accounted for around 18% from total hydrocarbons production in Romania (6.6% of the crude oil and NGL production and 26.5% of natural gas production). Important events have been the increase in capacity of the Hunt joint venture Padina early development facility and the planned maintenance of offshore gas compressors (Lebăda Est NAG) in the middle of the year. The largest gas field, Totea Deep, after reaching its plateau production during 2016, started declining and was impacted by the planned shut-down for upgrade at the end of June 2017.

Crude oil production obtained using enhanced oil recovery techniques accounted for 24.5% of total domestic oil production. Heavy oil, representing crude oil with density greater than 900 kg/m³,

accounted for more than 35% of total production of crude oil and NGL.

In 2017, the average crude oil production was 68.5 kboe/d, compared to 72.0 kboe/d in 2016.

Average gas production was 92.2 kboe/d, below the level of 93.8 kboe/d achieved in 2016. The internal gas consumption for upstream operations accounted for 11.6% of total gas production.

A very successful workover campaign partially compensated the natural production decline.

In line with OMV Petrom's ambition to focus on the most profitable barrels, the optimization of the portfolio continued as planned. On August 1st, 2017 the transaction for the transfer of 19 marginal fields to Mazarine Energy Romania was finalized.

Key projects

In 2017 the drilling activities ramped up, resulting in 14 active drilling rigs by December in OMV Petrom's operated licences. A total of 69 new wells and sidetracks were drilled by the end of 2017, a significant yoy increase, in accordance with our strategy to support the increase of the reserves replacement rate. These activities included the initiation of a drilling campaign in the OMV Petrom operated Istria Block in the shallow waters of the Black Sea. The campaign consists of four wells to be drilled, two of them in 2018.

During 2017, OMV Petrom further invested in the re-development of mature fields in Romania in order to maximize the value of the current fields' portfolio, to improve the recovery rate and to stabilize production levels. As part of OMV Petrom Strategy 2021+, Field Redevelopment (FRD) projects are playing a significant role in unlocking additional reserves. Therefore, at the end of the year, we had six projects that are currently in assessment phase, subject to in-depth subsurface analysis, aiming to identify the optimum development options for the subsequent phases.

In addition, by using new state of the art reservoir

Drilling activities
ramped up

modelling techniques, efforts are focused on bringing new candidates into the development funnel and thus creating new opportunities with future potential of contributing additional reserves.

As a reaction to low oil prices, investments in the Upstream business segment were re-ranked and prioritized in order to finalize the FRDs in development phases. During 2017, our efforts led to significant progress towards full operation of FD (Field Development) Totea Deep, and continuous development of other four projects.

The following projects are highlights of our Field Development / Redevelopment program:

► **FRD Burcioaia and Safety Upgrade Mădulari**

Burcioaia and Mădulari are twin projects implementing standardized solutions and modular design concepts for Upstream facilities. The two projects ensure gas deliveries into the national transport system at pressures of up to 40 bar. The new facilities treat approximately 7.5% of OMV Petrom's gas production in Romania. Currently, the two plants are treating and delivering around 5 kboe/d of gas from the existing well stock.

► **FRD Independența Phase 1**

Independența is a mature oil field that has been in production since 1959 and remains one of the most important fields in OMV Petrom's portfolio. The purpose of FRD Independența is to increase oil production by drilling in previously undeveloped areas with high potential of oil accumulations. The project consists of new horizontal wells, construction and modernization of gathering and metering points as well as a pipeline. FRD Independența had an important impact on the field production in 2017, contributing with approximately 16% to the oil production and around 22% to the gas production.

► **Totea Deep Development**

Totea Deep Development scope was to bring on stream the most important onshore gas discovery in recent years for OMV Petrom. It includes three wells (4539, 4540 and 4545 Totea) and one production park (Park 4540 Totea) with a total maximum capacity of 4.5 mn cm/day. The project was successfully commissioned below given budget and ahead of schedule. The project

was finalized and became fully operational in December 2017. Totea Deep represents one of the most important projects in the recent years for OMV Petrom and has a significant impact on its domestic production.

► **FRD Suplac Phase 2**

During 2017 major progress was achieved in Suplac Produced Water Treatment Plant. The plant, designed for minimum risk to personnel and environment, has a capacity of 8,000 m³/day and incorporates the newest available technology. The treatment process comprises of physical, chemical and biological treatment stages, and as a last step, also an activated carbon filtration system before the discharge into the Barcău river within the legally required specifications.

Production Enhancement Contracts (PECs) and Joint Ventures (JVs)

Since July 2010, in order to execute its strategy of optimizing the portfolio of existing assets, OMV Petrom has entered into **partnerships** with international companies for production enhancement. The partnerships with PetroSantander and Expert Petroleum are governed by Production Enhancement Contracts (PECs) referred to as PEC Țicleni, PEC Turnu and PEC Timiș, covering in total 24 mature fields.

The PECs stipulate that the contractors will take over and finance the operations and, together with OMV Petrom, commit to the future developments of the fields that have been handed over, in order to maximize production while improving efficiency. OMV Petrom remains the sole titleholder of the concession contracts and the owner of the hydrocarbon production and of the existing assets, as well as of the rights and obligations under the relevant petroleum concession as defined by the Petroleum Act.

The total annual **production** of PECs in 2017 was around 6.9 kboe/d (2016: 7.3 kboe/d), of which PEC Țicleni 3.6 kboe/d, PEC Turnu 1.2 kboe/d and PEC Timiș 2.1 kboe/d.

In **PEC Timiș**, a new well was drilled and completed in Q4/17 and 32 workovers were executed during the year. OMV Petrom invested in various projects in PEC Timiș area approximately

Burcioaia and Mădulari
– twin projects for
treatment of 7.5%
of domestic gas
production

2017 production from
PECs at 6.9 kboe/d

EUR 2.2 mn, the largest project being the Gas2Power (G2P) plant in Pordeanu.

In **PEC Turnu**, we successfully continued the implementation of cost reduction initiatives started in previous years.

In **PEC Țicleni** four new wells were drilled and 37 workovers were performed. OMV Petrom invested in developing projects in PEC area, the largest project being a new gas conditioning unit.

In the **Hunt JV** (50% OMV Petrom, 50% Hunt Oil) the major highlight for 2017 was the increase in capacity of the **early development facility in Padina** by around 0.4 kboe/d. This led to a production level in 2017 of 1.252 kboe/d (OMV Petrom share). Another highlight was the excellent availability of the facility with an average of 96.7% during the year.

The **total production recorded by PECs and JVs** in 2017 was 8.2 kboe/d (2016: 7.5 kboe/d),

representing 5.1% of the total OMV Petrom domestic production.

International Upstream operations

In **Kazakhstan**, OMV Petrom holds development and production licenses for the TOC oil fields (Tasbulat, Aktas and Turkmenoi) as well as for the oil field Komsomolskoe. In 2017, the average oil and gas production in Kazakhstan was 7.0 kboe/d (2016: 8.4 kboe/d). The production was significantly affected by workover operations at key wells, mainly well H4 in the Komsomolskoe field and by the unavailability of workover rigs. Despite the above mentioned challenges, our Kazakh office achieved a positive free cash flow. Kom Munai LLP continued the initiative of recovering the historic VAT accumulated during the development of the Komsomolskoe field, which contributed to its improved financial position. In 2017 the team managed to obtain the extension of the **licenses** for the Komsomolskoe, Turkmenoi and Aktas fields until 2028. The licence for the Tasbulat field is valid until 2023.

Production in Kazakhstan affected by workovers at key wells

Production in 2017

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcm	mn boe	mn boe
Romania	3.47	24.99	5.14	33.64	58.63
Kazakhstan	0.30	2.33	0.04	0.22	2.55
OMV Petrom Group	3.78	27.33	5.18	33.85	61.18

Proved reserves as of December 31, 2017

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	44.5	320.1	1,200.9	222.4	542.5
Kazakhstan	2.7	21.3	13.2	2.2	23.5
OMV Petrom Group	47.2	341.4	1,214.1	224.6	565.9

Downstream

Downstream Oil

At a glance ¹

	2017	2016	Δ (%)
Segment sales (RON mn) ²	14,550	12,131	20
Operating Result (RON mn) ³	1,681	1,289	30
Special items (RON mn)	44	58	(24)
CCS effects (RON mn)	104	120	(13)
Clean CCS Operating Result (RON mn) ⁴	1,533	1,112	38
Operating Result before depreciation (RON mn)	2,352	1,917	23
Capital expenditure (RON mn)	446	440	2
Capacity utilization rate (%)	93	89	5
Crude oil processed (kt) ⁵	4,152	3,945	5
Total refined product sales (kt)	5,073	4,932	3
thereof: Gasoline (kt)	1,249	1,297	(4)
Diesel (kt)	2,434	2,409	1
Kerosene/Jet fuel (kt)	279	251	11
HFO (kt)	276	282	(2)
thereof: Retail sales volumes (kt) ⁶	2,703	2,561	6

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 60-71;

² Including inter-segment sales;

³ Excluding intersegmental profit elimination;

⁴ Adjusted for exceptional, non-recurring items; clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS – effects) resulting from Downstream Oil;

⁵ Including NGL;

⁶ Retail sales volumes refer to sales via Group's filling stations in Romania, Bulgaria, Serbia and Moldova.

HSSE

In Downstream Oil, we continued to focus on improving the HSSE performance, with several programs being rolled out throughout the organization (campaigns as: "Would you intervene?", "Be Smart, Be Safe", "Ask me! Your safety is important"). The LTIR (employees and contractors combined) in Downstream Oil was 0.13, better than the international benchmark.

Operational performance

The operational performance and energy efficiency of Petrobrazi refinery continued to be improved. In 2017, the **OMV Petrom indicator refining margin** was higher than in 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), supported by better domestic demand for petroleum products. Following the increased utilization rate and energy efficiency focus, the fuel and loss indicator improved significantly in the last years from above 12% (in 2010) to below 9% (in 2017).

Improved refinery utilisation rate and energy efficiency

Production (kt)

	2017	2016	Δ (%)
Gasoline	1,215	1,222	(1)
Diesel	1,761	1,524	16
Kerosene/Jet fuel	143	171	(16)
HFO	203	219	(7)
LPG total	222	204	9
Petroleum coke	268	265	1
Other	321	263	22
TOTAL	4,132	3,869	7

OMV Petrom Group's total refined product sales amounted to 5,073 kt in 2017, higher by 3% compared to 2016, mainly reflecting increased domestic demand in a favorable economic environment.

In 2017, we continued to focus on maintaining our market share in the **retail** business. Within the OMV brand filling stations, we are providing best-in-class fuels, products and services, as well as further diversifying the existing range of customer services (e.g. money transfer, car insurances, utilities payments, postal services). In the Petrom brand filling stations, the main objective was to consolidate the "value for money" brand positioning.

Group retail sales were 6% higher compared to 2016, reaching 2,703 kt, as a result of a positive trend in the domestic market demand. In Romania, retail sales reached 2,237 kt in 2017, 7% higher compared to 2016. Therefore, in 2017, the average throughput per station in Romania increased to 4.95 mn liters (2016: 4.63 mn liters), driving the increase at the Group level to 4.26 mn liters (2016: 4.04 mn liters).

Retail market share ⁱⁱⁱ in the operating region was 33%, broadly at the same level as in

2016, despite increased competition, reflecting improved efficiency and portfolio optimization.

In 2017, the total non-oil business turnover increased by 16% compared to the previous year, driven by improved performance and the benefits of the shop-in-shop ^{iv} concept, as well as of other strategic partnerships. We initiated the cooperation with retailer Auchan, having at the end of 2017 stores opened in 12 Petrom brand filling stations, out of the 15 targeted in the pilot phase. Furthermore, we continued the partnership with Subway in Romania and KFC in Serbia. As a result of these measures, together with sustained customer incentive programs, the non-oil business contribution to the retail turnover increased yoy (by almost 1pp).

In the **non-retail** distribution channel, in 2017, OMV Petrom continued to optimize its operations in a challenging market environment with a focus on the business-to-business activities. In Romania, the multi-channel approach (using different channels to reach the customer target groups) was pursued to strengthen sustainable profitability. Group non-retail sales stood at a similar level with 2016, as an effect of capitalised market opportunities offset by increased competition. In Romania, non-retail sales were

Partnerships
enhancing non-oil
business contribution

ⁱⁱⁱ OMV Petrom's estimates based on preliminary data available; OMV Petrom retail market share is calculated by dividing retail sales (Gasoline + Diesel) to total retail market (Gasoline + Diesel);

^{iv} Renting space within the shop area of a filling station to partners.

Number of filling
stations relatively
stable

1,177 kt, similar with previous year's level.
OMV Petrom **fuel prices** have a dynamic evolution based on international fuels quotations, namely Platts Mediterranean, as well as the competition in the market. In addition, prices are influenced by the fiscal policy and the exchange rate. As the volatility of quotations is extremely high and an immediate reflection in product prices would make the market

unstable, OMV Petrom fuels prices only reflect the trend, not the highs or lows.

In terms of the **filling stations network**, at the end of 2017, the total number of filling stations operated within OMV Petrom Group was higher by three units compared to 2016, as a result of network optimization.

Number of filling stations per country at the end of period

	2017	2016	Δ
Romania	555	554	1
Moldova	79	78	1
Bulgaria	91	90	1
Serbia	61	61	0
Total	786	783	3

Downstream Gas

At a glance ¹

	2017	2016	Δ (%)
Segment sales (RON mn) ²	4,737	4,411	7
Operating Result (RON mn) ³	86	3	n.m.
Special items (RON mn)	(134)	(7)	n.m.
Clean Operating Result (RON mn)	220	11	n.m.
Operating Result before depreciation (RON mn)	315	131	140
Capital expenditure (RON mn)	87	13	n.m.
Gas sales volumes (TWh)	51.4	50.4	2
thereof to third parties (TWh)	45.3	43.9	3
Net electrical output (TWh)	2.7	2.9	(7)

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 60-71;

² Including inter-segment sales;

³ Excluding intersegmental profit elimination.

HSSE

Downstream Gas HSSE performance was remarkable in 2017. The health and safety of our employees and contractors continued to be our top priority and we are proud that no work related fatalities nor lost-time injuries were recorded throughout the year.

Legislative and regulatory updates

Starting April 1, 2017, gas producers were released from the obligation to supply household consumers with priority. ANRE is no longer setting the price at which domestic production is sold by gas producers; however, the regulator continues to set the end prices for households until June 30, 2021. The obligation for domestic gas producers to sell a certain fraction of their gas production on the centralized trading platforms continued to apply in 2017.

The power market liberalization for household consumers and small enterprises continued in 2017 and was completed by the end of the year. The quota of renewable energy sources in gross consumption as established by the Government was 8.3% (2016: 12.15%); however, the excess of green certificates on the market and, consequently, the low prices of certificates persisted throughout the year.

Operational performance

As per OMV Petrom's estimates, national **gas** consumption increased by around 5% in 2017 yoy, to approximately 131 TWh (2016: 124 TWh), mainly due to weather conditions. Import gas slightly declined to approximately 13 TWh in 2017 vs. 14 TWh in 2016. The gas volumes traded on the Romanian centralized market totaled 66 TWh (with delivery until end-2018), at an average price of RON 75/MWh [∇].

OMV Petrom's gas sales volumes increased to 51.4 TWh in 2017, by 2% yoy, our integrated gas portfolio optimization enabling market opportunities identification and monetization. Our entire gas production available for sale was placed on the market, using all sales channels. Pursuing our strategic direction to consolidate the leading position in the gas market, we have focused on sales to end customers, supplying large businesses and industrial clients while expanding towards smaller consumers. The gas volumes not offtaken by the Brazi power plant were successfully rerouted to wholesalers, proving the benefits of our integrated gas and power business model. On the centralized markets, we sold 17 TWh of gas (with delivery until end-2018), at an average price in line with the corresponding market price.

Gas price liberalisation completed for producers

Gas sales volumes up 2% yoy

[∇] Data regarding Romanian centralized markets represent OMV Petrom's estimates based on available public information. The gas price for such transactions refers to various products in terms of storage costs, flexibility and timing.

Brazi power plant
resumed full operations

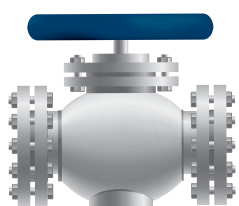
At the end of 2017, OMV Petrom's storage level was 2.1 TWh and in addition 0.3 TWh stored gas has been contracted from the market (end-2016: 2.5 TWh, thereof 0.6 TWh already contracted for sale with delivery in Q1/17).

On the **power** market, according to preliminary data published by the grid operator in February 2018, the national electricity consumption increased by 2% to 57 TWh (2016: 56 TWh), while the national gross electricity production decreased by 1% to 60 TWh (2016: 61 TWh); the net export balance was also lower compared to 2016. A change in the power generation mix took place in 2017, mainly attributable to lower availability of hydro sources compared to 2016, compensated by coal and gas-fired sources. These circumstances, in combination with a cold winter at the beginning of 2017, inflated the average baseload OPCOM power prices by 47% yoy to RON 220/MWh (2016: RON 150/MWh),

and the average peakload prices by 55% yoy to RON 261/MWh (2016: RON 168/MWh).

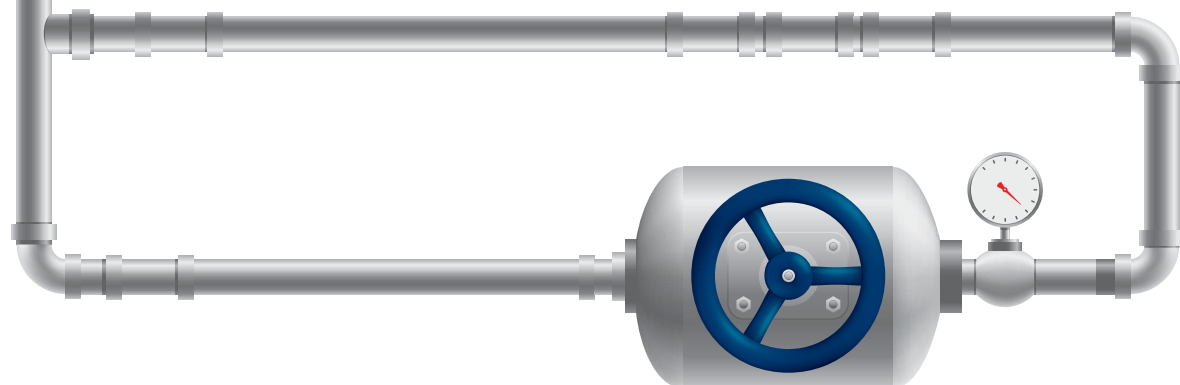
The Brazi power plant resumed full commercial operations in mid-November 2017, after being partially unavailable throughout 2017 due to malfunctions of two transformers. Even in this context, we managed to capitalize on the favorable market circumstances, the plant generating a net electrical output of 2.59 TWh (2016: 2.83 TWh), thus covering approximately 4% of Romania's electricity production (2016: 5%).

The Dorobanțu 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). Divestment of the Dorobanțu wind park was finalized at the end of 2017, according to OMV Petrom's strategy of focusing on core activities.



Report of the governing bodies

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Report of the Supervisory Board

Transparency and accountability towards our shareholders is a well-established and deeply entrenched practice that has been implemented in the Company. Hence, the Supervisory Board continued to devote close attention to the strategic focus and business performance of the Company in all areas of activity during 2017.

The following report gives an overview with regard to the Supervisory Board's main points of interest during the year under review. In addition to this report, the shareholders, as well as other stakeholders may access relevant information about the Company and the Supervisory Board by:

- ▶ visiting the Company's website, www.omvpetrom.com, where various information about the Company and relevant contact details are available;
- ▶ reading the other sections of the Company's Annual Report;
- ▶ contacting the Company directly – shareholders, investors and equity analysts can address their requests to the Investor Relations department;
- ▶ asking questions at the GMS, concerning the items to be debated during such meetings.

Composition of the Supervisory Board

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started on April 28, 2017 and runs until April 28, 2021. The CVs of the current Supervisory Board members are available on the Company's corporate website and are included also in the Corporate Governance Report.

At the beginning of 2017, the Supervisory Board consisted of the following members: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Daniel Turnheim, Jochen Weise, George Băeșu, Dan Manolescu and Joseph Bernhard Mark Mobius. Following the expiry of the mandate of the Supervisory Board, the Ordinary GMS held on April 25, 2017 resolved upon the appointment of the new membership of the Supervisory Board for a four year mandate, consisting of: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Daniel Turnheim, Jochen Weise, Mihai Busuioc, Radu-

Spiridon Cojocaru and Joseph Bernhard Mark Mobius.

Following Mihai Busuioc's waiver of his mandate as member of the Supervisory Board, Sevil Shhaideh was appointed, as of October 26, 2017 and until the next GMS, as interim member of the Supervisory Board.

Therefore, at the end of 2017, the Supervisory Board had the following composition: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Daniel Turnheim, Jochen Weise, Sevil Shhaideh, Radu-Spiridon Cojocaru and Joseph Bernhard Mark Mobius. Moreover, as announced on 15 March 2018, Johann Pleininger waived his mandate as member of the Supervisory Board of OMV Petrom, effective as of April 26, 2018.

Independence

On the occasion of each appointment of Supervisory Board members, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code of the Bucharest Stock Exchange (which are substantially similar with those provided by the Company Law). The independence evaluation consists in an individual personal assessment done by the relevant Supervisory Board member, followed by an external assessment.

Moreover, for the purpose of the preparation of this report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2017. Following this evaluation, it resulted that the following Supervisory Board members met during 2017 all the independence criteria provided by the Corporate Governance Code, namely: George Băeșu, Dan Manolescu, Jochen Weise, Radu-Spiridon Cojocaru and Sevil Shhaideh, out of which the last three are active Supervisory Board members as at the date of this report.

Information on the independency of the members of the Supervisory Board is included also on the Company's corporate website.

Supervisory Board works

In 2017, the Supervisory Board thoroughly reviewed the position and prospects of the Company and accomplished its functions according

Supervisory Board's
current mandate until
April 2021

to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. The Supervisory Board coordinated with the Executive Board on important management matters, monitored the latter's work and was involved in the Company's key decisions, always following a comprehensive analysis.

During the year under review, the Supervisory Board members met five times in person. Moreover, for specific and particularly urgent matters and projects arising between the scheduled meetings, the Supervisory Board submitted its approval in writing on five other occasions. All members of the Supervisory Board attended, in person or by telephone or video conference, the vast majority of the meetings of the Supervisory Board in 2017, the average participation rate being over 95%. Only on three occasions, some of the Supervisory Board members were represented by other Supervisory Board members in meetings.

In line with the Collective Labor Agreement, invitations to attend the Supervisory Board meetings were extended to trade union representatives and the meeting agenda and related documents were provided in a timely manner in that respect.

During the meetings, the Executive Board duly provided detailed information, both verbally and in writing, on issues of fundamental importance for the Company, including its financial position, business strategy, planned investments and risk management. Supervisory Board discussed all significant matters for OMV Petrom in the plenary meetings, based on the reports of the Executive Board. The frequency of both plenary and committee meetings has facilitated an intensive dialogue between the Executive Board and the Supervisory Board.

Besides the usual items, proposals and materials that were discussed and submitted for approval of the Ordinary GMS in April 2017, Supervisory Board's main focus during 2017 was, amongst others, to ensure better compliance with the Corporate Governance Code; thus, the

Supervisory Board focused on the activity of the governing bodies of the Company and its committees and to this end updated various rules and policies also by setting up a new committee at the level of the Supervisory Board, the Presidential and Nomination Committee.

Following the approval by the Ordinary GMS of the Supervisory Board's members for the new four year mandate, the Supervisory Board established the new membership of the Audit Committee and of the newly created Presidential and Nomination Committee. Likewise, the Supervisory Board also approved the appointment, starting July 1, 2017, of a new CFO and member of the Executive Board, namely Stefan Waldner, following Andreas Matje's waiver of his mandate, as well as the appointment of Sevil Shhaideh as interim member of the Supervisory Board starting October 26, 2017 and until the next GMS, following Mihai Busuioc's waiver of his mandate.

In terms of projects, during 2017, the Supervisory Board approved the divestment of the entire participation held by the Company in OMV Petrom Wind Power S.R.L. which operates Dorobanțu wind-park to Transeastern Power B.V., a limited liability company registered in the Netherlands, a wholly owned subsidiary of Transeastern Power Trust, the transaction being completed at the end of 2017.

In a year marked by volatile market conditions, the Company initiated fewer business investment projects. Out of these, only some of them required Supervisory Board approval, namely: some investments relating to the Company's envisaged activities in the Black Sea, the investment projects for drilling of 6600 Băicoi and 4461 Totea South exploration wells, as well as of LVO7 well in the shallow waters of the Romanian Black Sea. Moreover, during 2017 the Executive Board periodically informed the Supervisory Board about the status of the process for the share capital increase of OMV Petrom by incorporating the value of plots of land received in administration and/or use from the Romanian State for which OMV Petrom obtained / is in the process to obtain the land ownership certificates, as well as about the constant cooperation between the Company

Supervisory Board approved the appointment of a new CFO

Supervisory Board approved the divestment of the wind-park

and the Romanian State via its authorized representatives in order to clarify the pending issues. In addition, the President of the Executive Board has constantly informed the Supervisory Board on the developments in the Company's business and significant transactions.

Supervisory Board self-evaluation

The Company has in place a Supervisory Board Self-Evaluation Guideline providing the purpose, criteria and frequency of such an evaluation. The aim of this process is to assess and if necessary to improve both the efficiency and the effectiveness of the Supervisory Board's activity, as well as to ensure that the Supervisory Board is capable of fulfilling its responsibilities towards shareholders and other stakeholders.

Based on this Guideline, the Supervisory Board underwent a self-evaluation process for the business year 2017, under the leadership of the President of the Presidential and Nomination Committee.

The Supervisory Board members consider that the composition regarding the experience, expertise and qualification, diversity, number of members and also presence is satisfactory. Supervisory Board members also appreciated the good collaboration with the Executive Board, the organization and conducting of the Supervisory Board meetings and the quality of the documents provided for during the meetings.

Audit Committee

The Audit Committee is a consultative committee established among Supervisory Board members to provide assistance to the Supervisory Board with focus in the area of financial reporting, external audit, internal audit, internal controls and risk management, as well as compliance, conduct and conflicts of interest.

At the beginning of 2017, the Audit Committee was composed of three members, namely Reinhard Florey (President), Jochen Weise (Deputy President) and George Băeșu (Member). Following the approval by the Ordinary GMS of the new mandate of the Supervisory Board, a new composition of the Audit Committee was approved, made of four members with effect starting on April 28, 2017 and until the expiration of the current

mandate of the Supervisory Board, respectively April 28, 2021, as follows: Reinhard Florey (President), Jochen Weise (Deputy President), Mihai Busuioc (member) and Radu-Spiridon Cojocaru (member).

Following Mihai Busuioc's waiver of his mandate as member of the Audit Committee, the Supervisory Board approved the appointment of Sevil Shhaideh for this position, starting October 26, 2017.

Therefore, at the end of 2017, as well as at the date of this report, the Audit Committee consisted of the following four members: Reinhard Florey (President), Jochen Weise (Deputy President - independent), Sevil Shhaideh (member - independent) and Radu-Spiridon Cojocaru (member - independent). The CVs of the current Audit Committee members are available on the Company's corporate website and included also in the Corporate Governance Report.

In 2017, the Audit Committee met three times, on which occasions it reviewed and prepared the adoption of the annual financial statements, reviewed the reports on payments to governments, endorsed the Executive Board proposal regarding the allocation of the profits as well as regarding the distribution of dividends for the financial year 2016 and recommended to the Supervisory Board and to the GMS the reappointment of Ernst&Young (EY) as independent financial auditor.

In addition, the Audit Committee supervised and evaluated the efficiency of OMV Petrom's internal control and risk management system, the adequacy of risk management and internal control reports, as well as management's responsiveness and effectiveness in dealing with failings or weaknesses identified during the internal control activities.

The Audit Committee focused also on the effectiveness and scope of the internal audit function, on monitoring the application of statutory and generally accepted standards of internal audit as well as on evaluating the reports of the internal audit activity, including the internal audit plan for 2018.

In addition, it examined and reviewed related party transactions (especially those that exceed or were expected to exceed 5% of the Company's net assets in the previous financial year).

Independent financial auditor

EY was OMV Petrom Group's independent auditor in 2017. Based on the recommendations of the Audit Committee, a proposal for the reappointment of EY as OMV Petrom Group's independent financial auditor will be submitted for approval to the next Ordinary GMS to be held on April 26, 2018.

Annual financial statements

OMV Petrom prepares Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, presented within this Annual Report.

Separate financial statements of the Company for the year ended December 31, 2017 are also prepared in accordance with IFRS, as the Ministry of Finance Order no. 2844/2016 stipulates that Romanian listed companies must prepare financial statements in accordance with IFRS as endorsed by the European Union, starting with the year ended December 31, 2012.

EY audited the 2017 financial statements, read the annual report and has not identified information which is not consistent in all material respects with the information presented in the financial statements, and issued an unqualified audit opinion.

The financial statements and audit reports for the year ended December 31, 2017, as well as the Executive Board proposal to distribute dividends of RON 0.020 per share (corresponding to a payout ratio of 45% based on the Group's 2017 net profit attributable to stockholders' of the parent) were presented to the Supervisory Board for examination in a timely manner. EY attended the relevant meeting of the Audit Committee convened to review the financial statements. The Audit Committee discussed the financial statements with the independent financial auditor and examined them carefully. Moreover, the Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual separate and consolidated financial statements, including the management reports for the year ended December 31, 2017 and the Executive Board proposal for allocation of the profit, including distribution of dividends.

The separate and consolidated financial statements were approved in the Supervisory Board meeting of March 19, 2018 in line with the Audit Committee's recommendation and will further be submitted for approval in the Ordinary GMS to be held on April 26, 2018.

Furthermore, following the review by the Audit Committee, the Supervisory Board has reviewed and approved the reports on payments to governments for the year 2017, prepared in accordance with Chapter 8 of the Annex 1 of the Ministry of Finance Order no. 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council.

Corporate Governance

The Supervisory Board also approved the 2017 Directors' Report which includes the Corporate Governance Report.

We thank our shareholders for their confidence in OMV Petrom. The Company continued its successful operational path of development in 2017 in spite of difficulties caused by the effects of the volatile oil price environment.

To this end, the Supervisory Board members would like to express their appreciation to the Executive Board, managers, employees and trade union representatives for their commitment and hard work during the entire year. They successfully met the challenges of a demanding 2017 and achieved excellent results. We would also like to show our appreciation to the clients and business partners of OMV Petrom. Thanks to the sound operational performance and financial position, the Supervisory Board is confident that the Company is best positioned to surmount further challenges ahead, take advantage of the new opportunities and unlock its full potential in the years to come.

Bucharest, March 19, 2018



Rainer Seele
President of the Supervisory Board

Dividend proposal of
RON 0.020/share, 33%
higher yoy

Consolidated Directors' report



From left to right: Lăcrămioara Diaconu-Pințea (EB Member - Downstream Gas); Neil Morgan (EB Member - Downstream Oil); Stefan Waldner (Chief Financial Officer - EB Member); Mariana Gheorghe (Chief Executive Officer - President of EB); Peter Zeilinger (EB Member - Upstream).

OMV Petrom Group financials (RON mn)

	2017	2016	Δ (%)
Sales revenues	19,435	16,647	17
Operating Result	3,270	1,476	122
Net income	2,489	1,038	140
Net income attributable to stockholders	2,491	1,043	139
Cash flow from operating activities	5,954	4,454	34
Capital expenditures	2,969	2,575	15
Employees at the end of period	13,790	14,769	(7)

In 2017, the Group reported consolidated **sales** of RON 19,435 mn, 17% higher compared to 2016, which was driven by higher sales from all business segments as a result of an improved economic environment.

The Group's **Operating Result** for the year 2017 increased by 122% to RON 3,270 mn (2016: RON 1,476), 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, in amount of RON 3,273 mn, higher by 92% yoy, is stated after eliminating net special charges of RON (105) mn and inventory holding gains of RON 102 mn. The **net result was a profit** of RON 2,489 mn in 2017 (2016: RON 1,038 mn).

The **return on average capital employed**^{vi} (ROACE) reached a value of 9.9% (2016: 4.1%),

Operating Result more than doubled yoy

^{vi} For definitions of these ratios please refer to page 97-98, section "Abbreviations and definitions".

while Clean CCS ROACE increased to 9.8% at the end of 2017, from 4.5% at the end of 2016.

Cash flow from operating activities amounted to RON 5,954 mn, 34% above the 2016 level, reflecting the significantly higher operating result supported by the favorable market environment

and cost optimization.

Capital expenditure at RON 2,969 mn in 2017 was 15% higher than in 2016.

Based on a strong cash balance at December 31, 2017, OMV Petrom Group reported a **net cash** position of RON 2,897 mn at the end of 2017, up from RON 237 mn at the end of 2016.

Net cash close to
RON 3 bn

Operating Result

Operating Result (RON mn)	2017	2016	Δ %
Upstream ¹	1,661	401	314
Downstream	1,768	1,293	37
thereof Downstream Oil	1,681	1,289	30
thereof Downstream Gas	86	3	n.m.
Corporate and Other	(76)	(65)	(17)
Consolidation: elimination of intercompany profits	(82)	(153)	46
OMV Petrom Group Operating Result	3,270	1,476	122

¹ Excluding intersegmental profit elimination shown in the line "Consolidation".

In **Upstream, Operating Result** amounted to RON 1,661 mn, mainly driven by higher prices, lower production costs and depreciation, partly offset by lower sales volumes, higher exploration expenses and royalties. **Exploration expenses** increased to RON 308 mn in 2017 (2016: RON 262 mn) due to higher write-offs. 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 and downsizing of the organization, partly offset by lower production available for sale. Production cost in Romania was USD 10.89/boe (RON 44.06/boe), down 8% versus 2016. Upstream Operating Result in 2017 also reflected special charges of RON (13) mn driven mainly by the reassessment of provisions, while in 2016 there were special charges of RON (174) mn, related to personnel restructuring, write-offs of exploration assets and reassessment of receivables.

In **Downstream Oil, Operating Result** came in

at RON 1,681 mn (2016: RON 1,289 mn), largely driven by better refining margins, the low base effect of the prior year refinery turnaround, and increased demand. In 2017, the OMV Petrom indicator **refining margin** increased versus 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). Downstream Oil Operating Result reflected a net gain from **special items** of RON 44 mn (2016: RON 58 mn), and **CCS inventory holding gains** of RON 104 mn (2016: RON 120 mn).

In **Downstream Gas, Operating Result** increased to RON 86 mn (2016: RON 3 mn) following improved performance of the power business, supported by strong spark spreads and by the estimated insurance revenues related to the Brazi power plant. The insurance revenues related to the Brazi power plant booked in 2017

Higher refining margins
and oil products
demand

Improved performance
of the power business

amounted to RON 161 mn. Downstream Gas Operating Result reflected net special items of RON (134) mn (2016: RON (7) mn) mainly due to impairments.

Operating Result in the **Corporate and Other** (Co&O) segment was a loss in the amount of RON (76) mn (2016: RON (65) mn).

Notes to the income statement

Summarized income statement (RON mn)	2017	2016	Δ %
Sales revenues	19,435	16,647	17
Other operating income	364	488	(26)
Net income from equity-accounted investments	8	7	21
Total revenues and other income	19,807	17,142	16
Purchases (net of inventory variation)	(6,698)	(5,304)	(26)
Production and operating expenses	(3,162)	(3,589)	12
Production and similar taxes	(929)	(904)	(3)
Depreciation, amortization and impairment charges	(3,345)	(3,314)	(1)
Selling, distribution and administrative expenses	(1,971)	(1,900)	(4)
Exploration expenses	(308)	(262)	(18)
Other operating expenses	(123)	(392)	69
Operating result	3,270	1,476	122
Net financial result	(366)	(211)	(73)
Taxes on income	(415)	(227)	(83)
Net income	2,489	1,038	140
Less net income attributable to non-controlling interests	(2)	(6)	73
Net income attributable to stockholders of the parent	2,491	1,043	139

Consolidated Income Statement restructured in line with industry best practice

OMV Petrom's consolidated income statement has been restructured in line with industry best practice to comprehensively reflect the operations of the Group and enhance transparency for users of the financial statements.

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;
- ▶ In the revised income statement, 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 "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, administrative costs and also dealer commission costs which were previously presented under “Sales revenues”.

4. “Depreciation, amortization and impairment charges” are now disclosed as a separate line item.

- ▶ Previously, “depreciation, amortization and impairment charges” were included in “Cost of sales”, “Selling expenses” and “Administrative expenses”;
- ▶ Impairments related to exploration assets remain part of “exploration expenses”.

For comparability purposes, figures of the prior year have been reclassified according to the new structure.

OMV Petrom is an integrated oil and gas company. The hydrocarbons produced by the Upstream segment are processed and marketed mainly by the Downstream business. Compared to 2016, **consolidated sales revenues** increased by 17% to RON 19,435 mn, driven by higher sales from all business segments as a result of an improved economic environment. After the elimination of intra-group transactions of RON 7,758 mn, the contribution of the **Upstream** segment representing sales to third parties was RON 458 mn or about 2% of the Group's total

sales revenues (2016: RON 436 mn). Sales to external customers in the **Downstream Oil** segment amounted to RON 14,470 mn or 74% of total consolidated sales (2016: RON 12,055 mn). After elimination of intra-group sales, the **Downstream Gas** segment's contribution was RON 4,473 mn or approximately 23% of total sales (2016: RON 4,118 mn).

Sales to external customers are split by geographical areas on the basis of where the risks and benefits are transferred to the customer. Romania and Central and Eastern Europe represent the Group's most important **geographical markets**. Sales in Romania were in amount of RON 16,103 mn or 83% of the Group's total sales (2016: RON 13,771 mn, 83% of total sales) and sales in the rest of Central and Eastern Europe were RON 3,308 mn or 17% of Group sales (2016: RON 2,861 mn).

Purchases (net of inventory variation) which include costs of goods and materials employed amounted to RON 6,698 mn and increased by 26% versus 2016 mainly as a result of higher demand.

Production and operating expenses decreased to RON 3,162 mn in 2017, from RON 3,589 mn in 2016, mainly triggered by cost optimisation and the elimination of the tax on special constructions.

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

Other operating expenses decreased by 69% to RON 123 mn, compared to the 2016 value of RON 392 mn, mainly due to the positive impact from partial reversal in 2017 of a provisions related to litigations with employees, following the outcome of court decisions, while 2016 was impacted by charges related to reassessment of receivables.

The net financial result deteriorated to a 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.

83% of Group sales in Romania

Higher exploration expenses

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.

Taxes on income were in the amount of RON (415) mn (2016: RON (227) mn), mainly driven by the higher profit generated during 2017.

Capital expenditure (CAPEX)

Capital expenditure (RON mn)	2017	2016	Δ (%)
Upstream	2,435	2,119	15
Downstream	533	453	18
thereof Downstream Oil	446	440	2
thereof Downstream Gas	87	13	n.m.
Corporate and Others	2	3	(49)
Total capital expenditure	2,969	2,575	15
+/- Other adjustments ¹	(82)	218	n.m.
- Investments in financial assets	-	(1)	n.a.
Additions according to statement of non-current assets (intangible and tangible assets)	2,887	2,792	3
+/- Non-cash changes ²	(280)	125	n.m.
Cash outflow due to investments in intangible and tangible assets	2,607	2,917	(11)
+ Net inflow from sale/investment in subsidiaries, non-current assets and other financial assets	(160)	(22)	n.m.
Net cash used for investing activities	2,446	2,896	(16)

¹ Capital expenditure is adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves and other additions which by definition are not considered as capital expenditures;

² Additions are adjusted for items that did not affect cash flows during the period (including acquisitions through financial leasing, reassessment of decommissioning provisions) and changes of liabilities for investments.

Capex up 15% yoy to around RON 3 bn

Capital expenditure increased by 15% to RON 2,969 mn (2016: RON 2,575 mn).

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 Deep project.

Exploration expenditures decreased to RON 235 mn (2016: RON 338 mn) mainly due to lower exploration activities in the Neptun block.

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 Petrobrazi 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 half of the capacity of the Brazi gas-fired power plant.

Statement of financial position

Summarized statement of financial position (RON mn)	2017	%	2016	%
Assets				
Non-current assets	33,727	80	35,129	85
Intangible assets and property, plant and equipment	29,755	71	30,861	75
Investments in associated companies	50	0	44	0
Other non-current assets	2,377	6	2,672	6
Deferred tax assets	1,545	4	1,552	4
Current assets	8,332	20	6,285	15
Inventories	2,083	5	1,950	5
Trade receivables	1,513	4	1,540	4
Assets held for sale	5	0	273	1
Other current assets	4,731	11	2,522	6
Total assets	42,059	100	41,414	100
Equity and liabilities				
Total equity	28,421	68	26,706	64
Non-current liabilities	8,509	20	10,087	24
Pensions and similar obligations	225	1	225	1
Interest-bearing debts	559	1	1,141	3
Decommissioning and restoration obligations	7,275	17	7,923	19
Provisions and other liabilities	451	1	798	2
Current liabilities	5,129	12	4,621	11
Trade payables	2,805	7	2,290	6
Interest-bearing debts	329	1	410	1
Liabilities associated with assets held for sale	0	0	136	0
Provisions and other liabilities	1,995	5	1,786	4
Total equity and liabilities	42,059	100	41,414	100

Compared to December 31, 2016, **total assets** increased by RON 645 mn, to RON 42,059 mn, mainly driven by a higher cash and cash equivalents position, which more than compensated the net reduction in non-current assets, as depreciation and impairments exceeded investments during the period. Additions to intangible assets and property, plant and equipment amounted to RON 2,887 mn (2016: RON 2,792 mn). The ratio of intangible assets and property, plant and equipment to total assets was 71% (2016: 75%).

The increase in **total equity** by RON 1,715 mn was the result of the net profit generated in the current year, partially offset by the dividends distributed for the 2016 financial year in a gross amount of RON 850 mn. The equity ratio slightly increased to 68% (2016: 64%).

Equity ratio up to 68%

The net decrease in **interest-bearing debts** (both **long- and short-term**) by RON 663 mn was mainly related to partial repayments of loans in 2017. The Group's **liabilities other than interest bearing debts** (both **long- and short-term**) decreased

by RON 407 mn, mainly due to reassessment of provisions and decrease of liabilities associated with assets held for sale, partially offset by the

increase of trade payables.

OMV Petrom Group reached to a **net cash** position of RON 2,897 mn (2016: RON 237 mn).

Cash flow

Summarized cash-flow statement (RON mn)	2017	2016
Sources of funds	6,153	4,482
Cash flow from operating activities	5,954	4,454
Cash flow from investing activities	(2,446)	(2,896)
Free cash flow	3,508	1,559
Cash flow from financing activities	(1,524)	(376)
Effect of exchange rates on cash and cash equivalents	(1)	0
Net increase in cash and cash equivalents	1,983	1,183
Cash and cash equivalents at beginning of the period	1,996	813
Cash and cash equivalents at end of the period	3,979	1,996
Free cash flow after dividends	2,666	1,558

Free cash flow after dividends at around RON 2.7 bn

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), while 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, reaching RON 5,954 mn, reflecting the significantly higher operating result supported by the favorable crude oil price development and cost optimization.

In 2017, the **cash outflow from investing activities** amounted to RON 2,446 mn (2016: RON 2,896 mn) mainly related to payments for 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

As per the Code of Corporate Governance, OMV Petrom's Supervisory Board's role is to adopt strict rules and obtain assurance, via its specialized Audit Committee, that the company has an effective risk management system in force. OMV Petrom's Executive Board is continuously executing oversight and steers the company's risk management system by close involvement in the risk management process and its development.

To assess the risks associated with OMV Petrom's strategy pillars and mid-term operations, the Executive Board has empowered a dedicated Risk and Insurance Management Department with the objective to lead and coordinate the company's risk management related processes.

Through its risk management process, OMV Petrom assesses whether long-term sustainability and the mid-term liquidity are secured, and whether the estimated impact of the risks is within acceptable levels.

On the long term, a Strategic Risk assessment process is in place capturing on the one hand, the executive management's perspective of the risk environment across a long time horizon and on the other hand, the appointed risk owners' proposal of risk mitigation plans as well as their report on the implementation progress of the respective actions. The strategic risks are both external – oil & gas market volatility, climate change, political, regulatory changes & compliance risks, earthquake risk – and internal – hydrocarbon reserves replacement, physical assets & safety, human capital & competition on the labor market to attract talents, reputation and technology & innovation risks. Performing an annual strategic risk assessment ensures a robust re-validation of the identified risks, capturing in the risk registers new developments or updates of the operating environment and industry trends, with positive impact on the company's ability to prevent risks from happening and, additionally, to prepare responses in case the risks materialize.

On the medium-term, the objective of OMV Petrom's risk management system is to secure its capacity to deliver positive economic value added by managing the company's risks and their potential cash flow impact within the limits of the risk appetite. High potential single event risks as well as long-term strategic risks are also identified, evaluated, analyzed and managed consistently.

Furthermore, OMV Petrom's risk management system is part of the corporate decision-making process. Risks associated with new major projects or important business initiatives are assessed and communicated to management prior to approval decision.

OMV Petrom's Enterprise Wide Risk Management (EWRM) system follows ISO31000 Risk Management International Standard and comprises a dedicated risk department working under a robust internal regulation framework with

quantitative information technology infrastructure. Additionally, the EWRM system actively pursues the identification, analysis, evaluation and mitigation of main risks in order to manage their effects on the company's cash flow up to an acceptable level agreed as per the risk appetite.

OMV Petrom has four levels of risk management roles in a pyramid-type risk organization. The first bottom layer comprises the risk owners represented by managers from various areas of activity, the second level are the risk coordinators who facilitate and coordinate the risk management process in their division, the third layer is the risk manager function represented by the Risk Management department who coordinates the entire process assisted by the specialized corporate functions (HSSE, Compliance, Legal, Finance, Controlling). The top level is represented by OMV Petrom's Executive Board which steers and approves OMV Petrom's consolidated risk profile in accordance with the company's objectives and risk appetite. The risk management system and its effectiveness are monitored by the Audit Committee of the Supervisory Board via regular reports.

The risks within OMV Petrom's EWRM system are organized in the following categories: market and financial, operational and strategic. These categories include among others: market, financial, project, process, health, safety and security, tax, compliance, personnel, legal, regulatory and reputational risks.

In terms of tools and techniques, OMV Petrom follows the best international practices in risk management and uses stochastic quantitative models to measure the potential loss associated with the company's risk portfolio under a 95% confidence level and a three-year horizon. The identified risks are analyzed depending on their nature, with consideration to their causes, consequences, historical trends, volatilities and potential cash flow impact.

OMV Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and operational risks in connection with low probability high impact

Four levels of risk management

Market risk – core strategic importance

hazards. Other risks that influence the company's results are counterparty credit risk, liquidity risk and interest rate risk.

As regards the **market price risk**, OMV Petrom is naturally exposed to the price-driven volatility of cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. Market risk has core strategic importance within OMV Petrom's risk profile and liquidity. The market price risks of OMV Petrom commodities are closely analyzed, quantified and evaluated.

In terms of **foreign exchange risk management**, OMV Petrom cash is essentially exposed to the volatility of RON against USD and EUR. The effect of foreign exchange risk on cash flows is regularly monitored.

Derivative financial instruments may be used for the purposes of managing exposure to commodity price and to foreign exchange currencies upon approval from OMV Petrom's Executive Board in line with the company's risk appetite and / or risk assessments.

OMV Petrom's main operational risks covered by insurance

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is given to process safety risks where OMV Petrom's policy is "Zero harm, no losses". The low probability high impact risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are identified and incident scenarios are developed and assessed for each of them. Where required, mitigation plans are developed for each specific location. Besides emergency, crisis and disaster recovery plans, OMV Petrom's policy with regard to insurable risks is to transfer the risks via insurance instruments. These risks are closely analyzed, quantified and monitored by the risk organization and are managed via detailed internal procedures.

Counterparty credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to OMV Petrom. The Group's counterparty credit

risks are assessed, monitored and managed at company level using predetermined limits for specific countries, banks, clients and suppliers. On the basis of creditworthiness and available rating information, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis.

For the purpose of assessing **liquidity risk** in the short-term, the budgeted operating and financial cash inflows and outflows throughout OMV Petrom are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. For mid-term risks, to ensure that OMV Petrom remains solvent at all times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained.

OMV Petrom is inherently exposed to interest rate risk due to its financing activities. The volatility of EURIBOR (Euro Interbank Offered Rate) and ROBOR (Romanian Interbank Offered Rate) may trigger less or additional cash flow resources necessary to finance the interest payments associated with OMV Petrom's debt. However the mentioned volatility is low.

In relation to **political and regulatory risk**, the company is in dialogue with the Romanian authorities on topics of relevance for the industry and monitors regulatory developments. In 2017, 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. As far as compliance risks are concerned, the company organizes regular trainings and awareness campaigns.

OMV Petrom's consolidated risk profile is regularly reported for the Executive Board's endorsement and for the information of the Audit Committee of the Supervisory Board.

In 2017, OMV Petrom re-assessed its strategic risk

portfolio during six dedicated meetings with the participation of the Executive Board members. The focus of the discussions was on mitigating actions proposed by the appointed risk owners and an update of the risk developments over the recent period.

Additionally, OMV Petrom re-assessed its mid-term risk exposures, its financial resilience and the list of risk mitigating actions. The results of the re-assessment were submitted in the form of risk management reports in March and October to the Executive Board and Audit Committee of the Supervisory Board.

Internal control

The Group has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, non-compliance, unauthorized transactions and misstatements in financial reporting.

OMV Petrom's internal control system covers all areas of Group operations with the following goals:

- ▶ Compliance with laws and internal regulations
- ▶ Reliability of financial reporting (accuracy, completeness and correct disclosure)
- ▶ Prevention and detection of fraud and error
- ▶ Effective and efficient business operations.

Internal control covers all activity areas

OMV Petrom's internal control system framework consists of the following elements:

Element	Description
Internal control environment	The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).
Assessment of process and compliance risks	Generally all business, management and support processes are within the scope of the internal control system. They are assessed to identify risky and critical activities as well as process and compliance risk.
Risk mitigation via control activities	Control activities and measures (such as segregation of duties, checks, approvals, IT access rights) are defined, implemented and performed to mitigate significant process and compliance risks.
Documentation and information	Related duties include the documentation of main processes and procedures containing a description of key control activities performed.
Monitoring and audit	Management and Internal Audit evaluate the effective implementation of the internal control system.

OMV Petrom's successful management and operation means creating value for all stakeholders and requires a systematic and transparent management of the company, while applying the best corporate governance principles. To attain this objective, it is very important to establish and to maintain a rigorous Business Management System (BMS).

BMS represents the set of policies, management objectives, directives and corporate standards whose purpose is the management and control of the organization, created to match the integrated set of processes and tools used by the Group for the development and implementation of its strategy. The Corporate Affairs and Compliance department is responsible for the coordination of BMS and

Expectations of improved commodity prices; similar demand for gas and power in 2018

Methodology for gas reference price for royalty changed

governance model for regulations at the OMV Petrom Group level. This department also provides support to various entities of OMV Petrom S.A. to meet regulatory requirements, coordinates the elaboration of corporate regulations and performs the verification of their quality. Through the Directive "Management of Internal Regulations", the requirements have been set for classification, definition and standardized structure of corporate regulations, as well as for the development, approval, communication, monitoring and reporting thereof.

The Internal Audit department assesses the effectiveness and efficiency of the organization's policies, procedures and systems which are in place to ensure: proper identification and management of risks, reliability and integrity of information, compliance with laws and regulations, safeguarding of assets, economical and efficient use of resources and accomplishment of established objectives and goals.

Internal Audit carries out regular audits of individual group companies and informs the Audit Committee about the results of the audits performed.

The Group has an Accounting Manual that is implemented consistently in all group companies in order to ensure that uniform accounting treatment is applied for the same business cases. The Group Accounting Manual is updated regularly with changes in International Financial Reporting Standards. Furthermore, the organization of the accounting and financial reporting departments is set up in order to achieve a high quality financial reporting process. Roles and responsibilities are specifically defined and a revision process – the "four-eye principle" – is applied in order to ensure correctness and accuracy of the financial reporting process. The establishment of group-wide standards for the preparation of annual and interim financial statements by means of the Group Accounting Manual is also regulated by an internal Corporate Guideline.

In accordance with Chapter 8 of Ministry of Public Finance Order no. 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/

EU) of the European Parliament and of the Council, management prepared a consolidated report on payments to governments for the year 2017. This report will be published together with the consolidated financial statements of OMV Petrom for the year ended December 31, 2017.

Subsequent events

Please refer to Note 37 in the Consolidated Financial Statements.

Outlook 2018

For the year 2018, we expect 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.

We expect a broadly similar **demand for gas and power** in Romania as compared to 2017.

Refining margins are projected to be below the 2017 level, due to crude oil price recovery, while growing private consumption in Romania is estimated to support the **demand for oil products**.

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 announced the withdrawal of 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 in 2018.

The **methodology for gas reference price to be used for the calculation of gas royalties** was approved by the National Agency for Mineral Resources (NARM) and entered into force as of its publication date, February 12, 2018; the reference price will be linked to CEGH (Central Europe Gas Hub) gas prices in Austria.

The amendments to the regulation on the **supplementary taxation of revenues obtained from gas sales** have 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.

At the Group level, 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. Final investment decision with regards to **Neptun Deep** is expected in the second half of 2018. We aim for a sustainable **cost base** supported by ongoing efficiency programs.

In **Upstream**, we will strive to contain the average daily production decline at around 4% yoy, not including portfolio optimization initiatives. We will continue to focus on the most profitable barrels; as such, we are evaluating further divestment of 50-60 fields. We plan investments of around RON 2.8 bn (excluding Exploration and Appraisal (E&A)), including more than 100 new wells and sidetracks, around 1,000 workovers and the

Neptun Deep project. Exploration expenditures are estimated to be around RON 230 mn.

In **Downstream Oil**, 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.

In **Downstream Gas**, we expect relatively similar gas sales volumes and slightly higher net electrical output vs. 2017. A six-week shutdown for half of the Brazi power plant capacity is planned for Q2/18.

Non-financial declaration

As per the legal requirements with reference to the disclosure of non-financial information, the Company prepares and publishes a separate Sustainability Report, which includes the information required for the non-financial declaration, describing our sustainability initiatives. OMV Petrom's Sustainability Report for 2017 will be published by June 30, 2018.

2018 focus: increase CAPEX, contain hydrocarbon production decline

Corporate governance report

OMV Petrom is governed in a two-tier system

The Company has always conferred great importance upon the principles of good corporate governance considering corporate governance a key element underpinning the sustainable growth of the business and also the enhancement of long-term value for shareholders.

To remain competitive in a changing world, OMV Petrom constantly develops and updates its corporate governance practices, so that it can meet new demands and future opportunities.

Since 2007, the Company is governed in a two-tier system in which the Executive Board manages the daily business and operations of the Company, while the Supervisory Board elected by the shareholders monitors, supervises and controls the activity of the Executive Board. The powers and duties of the above-mentioned bodies are stated in the Company's Articles of Association, available on the website (www.omvpetrom.com) and in the relevant internal regulations and are briefly detailed herein.

The Company is managed in an atmosphere of openness between the Executive Board and the Supervisory Board, as well as within each of these corporate bodies. A transparent decision-making process, relying on clear and objective rules, enhances shareholders' confidence in the Company and its management. It also contributes to the protection of shareholders' rights, improving the overall performance of the Company and providing better access to capital and risk mitigation.

The members of the Executive Board and the Supervisory Board have always paid due attention to their duty of care and loyalty. Hence, the Executive Board and the Supervisory Board have passed their resolutions as required for the welfare of the Company, primarily in consideration of the interests of shareholders and employees.

Bucharest Stock Exchange Corporate Governance Code

The Company first adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010 and continues to apply its principles, ever since then.

OMV Petrom complies with almost all of the

provisions set forth in the Corporate Governance Code issued by the Bucharest Stock Exchange that entered into force on January 4, 2016. More details on Company's compliance status with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange are presented in the corporate governance statement, which is a part of this Annual Report.

General Meeting of Shareholders (GMS)

GMS organization

The GMS is the highest deliberation and decision forum of a company. The main rules and procedures of the GMS are laid down in the Company's Articles of Association and in the Rules and Procedures of the GMS, both published on the Company's corporate website, as well as in the relevant GMS convening notice.

The GMS is convened by the Executive Board whenever this is necessary. In exceptional cases, when the Company's interest requires it, the Supervisory Board may also convene the GMS. The convening notice is published, at least 30 days before the GMS, in the Official Gazette and in one widely-distributed newspaper in Romania and disseminated to the Financial Supervisory Authority and Bucharest and London Stock Exchanges. At the same time, the convening notice will be also made available on the Company's website, together with all explanatory and supporting documents related to items included on the relevant GMS agenda.

The GMS is usually chaired by the President of the Supervisory Board, who may designate another person to chair the meeting. The chairman of the GMS designates two or more technical secretaries to verify the fulfillment of the formalities required by law for carrying out the GMS and for drafting the minutes thereof.

At first convening, the quorum requirements are met if the shareholders representing more than half of the share capital of the Company are present, decisions being validly passed with the affirmative vote of shareholders representing the majority of the share capital of the Company. The same

High corporate governance standards since 2010

rules apply both to Ordinary and Extraordinary GMS. The Ordinary GMS held at the second convening may validly decide on the issues included on the agenda of the first scheduled meeting, irrespective of the number of attending shareholders, by the majority of the votes expressed in such meeting. For the Extraordinary GMS held at the second convening, the quorum and majority requirements are the same as for the first convening. Where the mandatory legal provisions set out otherwise, the quorum and majority requirements shall be carried out in accordance with such legal provisions.

In observance of capital market regulations, the resolutions of the GMS are disseminated to the Bucharest and London Stock Exchanges and the Financial Supervisory Authority within 24 hours after the event. The resolutions will also be published on the Company's website.

The Company actively promotes the participation of its shareholders in the GMS. The shareholders duly registered in the shareholders' register at the reference date may attend the GMS in person or by representation, based on a general or special proxy. Shareholders may also vote by correspondence, prior to the GMS. The Company makes available at the headquarters and/ or on the Company's website templates of such proxies and voting bulletins for the votes by correspondence.

The shareholders of the Company, regardless of their participation held in the share capital, may raise questions in writing or verbally regarding the items on the agenda of the GMS. In order to protect the interests of our shareholders, the answers to the questions shall be provided by observing the regulations applicable to special regime information (e.g. classified information), as well as of disclosure of commercially sensitive information that could result in losses or a competitive disadvantage for the Company.

GMS main duties and powers

The main duties of the **Ordinary GMS** are:

- ▶ to discuss, approve or modify the annual financial statements;
- ▶ to distribute the profit and to establish the

dividends;

- ▶ to elect and revoke the members of the Supervisory Board and the financial auditor;
- ▶ to establish the remuneration of the members of the Supervisory Board and of the financial auditor;
- ▶ to assess the activity of the Executive Board members and of the Supervisory Board members, to evaluate their performance and to discharge them of their liability in accordance with the provisions of law;
- ▶ to approve the income and expenditure budget for the next financial year.

The **Extraordinary GMS** is entitled to decide mainly upon:

- ▶ changing the corporate form or the business object of the Company;
- ▶ increasing or reducing the share capital of the Company;
- ▶ spin-offs or mergers with other companies;
- ▶ early dissolution of the Company;
- ▶ converting shares from one class into another;
- ▶ amendments to the Articles of Association.

Shareholders' rights

Rights of the Company's minority shareholders are adequately protected according to relevant legislation.

Shareholders have, amongst others rights provided under the Company's Articles of Association and the laws and regulations currently in force, the right to obtain information about the activities of the Company, regarding the exercise of voting rights and the voting results in the GMS. Shareholders have also the right to participate and vote in the GMS, as well as to receive dividends. OMV Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote. Moreover, shareholders have the right to challenge the decisions of GMS or to withdraw from the Company and to request the Company to acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders holding, individually or jointly, at least 5% of the share capital, may request the calling of a GMS. Such shareholders have also

One share, one vote,
one dividend

the right to add new items to the agenda of a GMS, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

GDR holders' rights

GDR holders have the rights set out in the terms and conditions of the GDRs, as endorsed on each GDR certificate. These include the right to:

- ▶ withdraw the deposited shares;
- ▶ receive payment in US dollars from the GDR depositary of an amount equal to cash dividends or other cash distributions received by the GDR depositary from the Company in respect of the deposited shares, net of any applicable fees, charges and expenses of the depositary and any taxes withheld;
- ▶ receive from the GDR depositary additional GDRs representing additional shares received by the GDR depositary from the company by way of free distribution (or if the issue of additional GDRs is deemed by the GDR depositary not to be reasonably practicable or to be unlawful, the net proceeds in US dollars of the sale of such additional shares);
- ▶ request the GDR depositary to exercise subscription or similar rights made available by the Company to shareholders (or if such process is deemed by the GDR depositary not to be lawful and reasonably practicable, the right to receive the net proceeds in US dollars of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights);
- ▶ instruct the GDR depositary regarding the exercise of any voting rights notified by the Company to the GDR depositary subject to certain conditions;
- ▶ receive from the GDR depositary copies received by the GDR depositary of notices provided by the Company to shareholders or other material information.

Supervisory Board

Supervisory Board members

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with

the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started in 2017 and ends on April 28, 2021.

At the beginning of 2017, the Supervisory Board consisted of the following members: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Daniel Turnheim, Jochen Weise, George Băeșu, Dan Manolescu and Joseph Bernhard Mark Mobius.

Following the expiry of the mandate of the Supervisory Board, the Ordinary GMS approved the appointment of the members of the Supervisory Board for a new four-year mandate effective as of April 28, 2017, namely: Rainer Seele, Reinhard Florey, Manfred Leitner, Johann Pleininger, Daniel Turnheim, Mihai Busuioc, Radu-Spiridon Cojocaru, Joseph Bernhard Mark Mobius and Jochen Weise.

During 2017, there was only one change in the membership of the Supervisory Board. As of October 26, 2017, following Mihai Busuioc's waiver of his mandate as member of the Supervisory Board, Sevil Shhaideh was appointed as interim member of the Supervisory Board until the next GMS.

Herein below is the composition of the Supervisory Board as effective at the end of 2017 as well as at the date of this report:

Rainer Seele (1960) – President

After completing his studies at the University of Göttingen, where he obtained a doctorate in Chemistry, Rainer Seele joined BASF Aktiengesellschaft, initially as a research scientist. After working in a number of different functions between 1987 and 1996, he was appointed as Head of Group Chemical Research and Head of Planning and Controlling at the research division of BASF Aktiengesellschaft. In 1996 he became Head of Strategic Planning at Wintershall AG in Kassel and in 2000 he became a member of the Executive Board at WINGAS. Later on, in 2002, Rainer Seele was also appointed Chairman of the Board of Executive Directors of WINGAS GmbH, and, in 2009, he became Chairman of the Wintershall

Three independent
members in the
Supervisory Board

Board. Starting July 1, 2015, Rainer Seele is CEO and Chairman of the OMV Aktiengesellschaft Executive Board.

Rainer Seele was first elected as member of OMV Petrom Supervisory Board by the Ordinary GMS dated September 22, 2015.

Reinhard Florey (1965) – Deputy President

Reinhard Florey graduated in mechanical engineering and economics from Graz University of Technology while also completing his music studies at the Graz University of Fine Arts. He started his career in corporate and strategy consulting. Until 2002, he worked for McKinsey & Company, Austria, and from 2002 to 2012 he occupied different management positions worldwide for Thyssen Krupp AG. In January 2013, Reinhard Florey joined Outokumpu OYJ, Finland, first as Executive Vice President Strategy and Integration, and, starting November 2013, as CFO and Deputy CEO. Since July 1, 2016 Reinhard Florey has been the CFO of OMV Aktiengesellschaft.

Reinhardt Florey was elected as member of OMV Petrom Supervisory Board by the Ordinary GMS dated April 25, 2017.

Manfred Leitner (1960)

Manfred Leitner studied commerce at the Vienna University of Economics and Business and then followed an Executive Program at Stanford Graduate School of Business. He began his career with OMV in 1985 in the Exploration & Production division. After several years abroad as finance manager in Tripoli, he returned in 1990 to Austria to take charge of the controlling department in the Exploration & Production division. In 1997 he transferred to Refining & Marketing and took over management responsibility for planning and controlling. In 2003 he became Business Unit Manager for Downstream Optimization & Supply. Manfred Leitner has been a member of the OMV Aktiengesellschaft Executive Board since April 1, 2011 and is responsible for Downstream (Refining & Marketing and Gas & Power).

He was first elected as OMV Petrom Supervisory Board member at the Ordinary GMS on April 26, 2011.

Johann Pleininger (1962)

Johann Pleininger attended the Technical College for Mechanical Engineering and Economics in Vienna, where he obtained the International Project Management certificate and graduated in Industrial Engineering. He was Executive Board member of OMV Petrom responsible for Exploration & Production activities between 2007 and 2013. He has been working in the oil and gas industry since 1977 and, before joining OMV Petrom in 2005, he held various positions within OMV Aktiengesellschaft, ranging from field operator to shift foreman and then to production supervisor, Facility & Cost engineer, Head of the Project Management and Investments Department. During 2013 – 2015 he was the Senior Vice President responsible for the core Upstream countries Romania, Austria as well as the development of the Black Sea Region. Since September 1, 2015 he has been a member of the OMV Aktiengesellschaft Executive Board and is responsible for Upstream and Deputy CEO since July 1, 2017.

Johann Pleininger was first elected as OMV Petrom Supervisory Board member at the Ordinary GMS on April 29, 2014.

Daniel Turnheim (1975)

Daniel Turnheim studied Business Administration at the Vienna University of Economics and Business Administration. In 2002, he joined OMV Group where he held several management positions. He was Executive Board member and CFO of OMV Petrom between January 2011 and December 2012. During the period January 2013 – June 2016, Mr. Turnheim was Senior Vice President of Corporate Finance within OMV Aktiengesellschaft. Since July 2016 he holds the position as Senior Vice-president of Corporate Finance&Controlling within OMV Aktiengesellschaft.

Daniel Turnheim was elected as member of OMV Petrom Supervisory Board by the Ordinary GMS dated April 25, 2017.

Sevil Shhaideh (1964) – independent ^{vii}

Sevil Shhaideh graduated the Faculty of Economic Planning and Cybernetics within the Academy of Economic Sciences from Bucharest

^{vii} Independent member as per the criteria of the Bucharest Stock Exchange Corporate Governance Code, criteria which are substantially similar with those provided by the Company Law.

and earned a master's degree in the Management of Business Projects from Ovidius University, Constanta. Moreover, she is specialized in various fields such as project management, expert in public administration and auditor in quality management and financial audit. Sevil Shhaideh has 20 years of experience as public servant within local public administration. Starting 2012, she held various positions within the Romanian Government, such as State Secretary and Minister within the Ministry of Regional Development and Public Administration and Vice Prime Minister and Minister of Regional Development, Public Administration and European Funds, having as main responsibilities regional development, European projects management and public administration activities. Sevil Shhaideh was elected as interim member of OMV Petrom Supervisory Board effective as of October 26, 2017 until the next GMS.

Radu-Spiridon Cojocaru (1947) – independent ^{viii}

Radu-Spiridon Cojocaru graduated in applied electronics from Politehnical Institute, Faculty of Electronics, Bucharest. He is founding member of the National Association for Securities Market Development, contributing from his position as member of the Board of Directors to the establishment of specific institutions such as National Securities Commission (currently the Financial Supervisory Activity), Bucharest Stock Exchange, Central Depositary, RASDAQ (Romanian Association of Securities Dealers Automated Quotation).

Starting 1990, he held various positions within the management structures of some Romanian companies. He also held the position as Member of the Chamber of Deputies within the Romanian Parliament between 1996 - 2000, being member of the Commission for Economic Policies, Reform and Privatization. He was member of the presidential commission for the Romania's Country Program between 2016 - 2018.

Radu-Spiridon Cojocaru was elected as member of OMV Petrom Supervisory Board by the Ordinary GMS dated April 25, 2017.

Joseph Bernhard Mark Mobius (1936)

Mark Mobius earned a bachelor's and master's degrees from Boston University, and a Doctor

of Philosophy (Ph. D) in economics and political science from the Massachusetts Institute of Technology. He has spent more than 40 years working in emerging markets all over the world. He joined Franklin Templeton in 1987 as president of Templeton Emerging Markets Fund, Inc. In 1999, he was appointed joint chairman of the Global Corporate Governance Forum Investor Responsibility Taskforce of the World Bank and Organization for Economic Cooperation and Development. Mark Mobius was the Executive Chairman of Templeton Emerging Markets Group, which directs the analysts of Franklin Templeton's 18 emerging market offices and manages the emerging markets' portfolios. Starting February 1, 2018, Mark Mobius is a Partner of Mobius Capital Partners Ltd.

Mark Mobius was first elected as OMV Petrom Supervisory Board member at the Ordinary GMS on April 29, 2010.

Jochen Weise (1956) – independent ^{viii}

Jochen Weise graduated in Law from Universities of Bochum and Bonn, Germany. He has been in non-executive positions as Supervisory Board member of Verbundnetzgas AG in Leipzig, Germany since December 2014 and as Senior Advisor Energy Infrastructure Investments at Allianz Capital Partners in London since November 2010. Previously, he was member of the Management Board, between April 2004 - August 2010, Executive Vice President Gas Supply&Trading, between January 2003 - March 2004, at E.ON Ruhrgas AG, and Director Commercial Sales at Deutsche Shell GmbH, between April 1998 - December 2001.

Jochen Weise was elected as member of OMV Petrom Supervisory Board by the Ordinary GMS dated April 25, 2017.

Supervisory Board main duties and powers

The Supervisory Board has the following main powers:

- ▶ to exercise control over the management of the Company by the Executive Board;
- ▶ to appoint and revoke the members of the Executive Board;
- ▶ to submit to the GMS a report concerning the supervision activity undertaken;

^{viii} Independent member as per the criteria of the Bucharest Stock Exchange Corporate Governance Code, criteria which are substantially similar with those provided by the Company Law.

- ▶ to verify the reports of the members of the Executive Board;
- ▶ to verify the Company's annual separate and consolidated financial statements;
- ▶ to propose to the GMS the appointment and the revocation of the independent financial auditor, as well as the minimum term of the audit contract.

Details on the Supervisory Board works and activities in 2017, as well as the results of the Supervisory Board self-evaluation are included in the Supervisory Board Report.

Supervisory Board organization

The responsibilities of the members of the Supervisory Board, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations.

The Supervisory Board meets whenever necessary, but at least once every three months. The Supervisory Board may hold meetings in person or by telephone or video conference. At least five of the Supervisory Board members must be present for resolutions to be validly passed. The decisions of the Supervisory Board shall be validly passed by the affirmative vote of the majority of the members present or represented at such Supervisory Board meeting. In the event of parity of votes, the President of the Supervisory Board or the person empowered by him/her to chair the meeting shall have a casting vote. In urgent cases, the Supervisory Board may take decisions by circulation, without an actual meeting being held, by the majority of votes. The President shall decide on whether issues are of an urgent nature.

Special Committees

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the Supervisory Board itself, without thereby preventing the entire

Supervisory Board from dealing with matters assigned to the committees. As of December 31, 2017, the special committees established at the level of the Supervisory Board were the Audit Committee and the Presidential and Nomination Committee, the later being established as of March 23, 2017.

Audit Committee

The Audit Committee is currently composed of four members, including the president and the deputy president, appointed by decision of the Supervisory Board from amongst its members. At the beginning of 2017, the Audit Committee was composed of three members, namely Reinhard Florey, Jochen Weise and George Băeșu, while as of April 28, 2017, the Audit Committee was composed of four members as follows: Reinhard Florey, Jochen Weise, Mihai Busuioc and Radu-Spiridon Cojocaru. During 2017, there was only one change in the membership of the Audit Committee as detailed in the Supervisory Board report. Hence, at the end of 2017, as well as at the date of this report, the Audit Committee consisted of the following members: Reinhard Florey (President), Jochen Weise (Deputy President - independent), Sevil Shhaideh (member – independent) and Radu-Spiridon Cojocaru (member - independent). The Audit Committee's members have adequate qualifications relevant to the functions and responsibilities of the Audit Committee.

Audit Committee main duties and powers

The main duties and powers of the Audit Committee according to the Audit Committee Terms of Reference are focused on four main areas:

- ▶ Financial reporting – to examine and review the annual financial statements of the Company and the proposal for the distribution of the profits before their submission to the Supervisory Board and subsequently to the GMS for approval; to oversee and approve the nature and level of non-audit services provided by the independent financial auditor to the Company, as well as the issuance of regulations/guidelines with regard to such services;

- ▶ External audit – to consider and make recommendations to the Supervisory Board on the appointment, re-appointment and removal of independent financial auditors, subject to approval by the shareholders;
- ▶ Internal audit, internal controls and risk management – to undertake an annual assessment of the system of internal control;
- ▶ Compliance, conduct and conflicts of interest – to review conflicts of interests in transactions of the Company and its subsidiaries with related parties and examine and review, before their submission to the Supervisory Board for approval, related party transactions that exceed or may be expected to exceed 5% of the Company's net assets in the previous financial year.

Details on the Audit Committee works and activities in 2017 are included in the Supervisory Board Report.

Audit Committee organization

The working procedures of the Audit Committee are stated in the Terms of Reference of the Audit Committee.

The Audit Committee meets on a regular basis, at least three times per year, and on an extraordinary basis if required. The Audit Committee's meetings are chaired by the President or, in his/her absence, by the Deputy or by another member, by virtue of a mandate from the President. The decisions of the Audit Committee shall be taken by unanimous consensus of all members of the Audit Committee. In case unanimous consensus cannot be reached with respect to a specific item on the agenda, that item will be resolved upon by the Supervisory Board without the consultative opinion of the Audit Committee.

In urgent cases, the Audit Committee may take decisions also by circulation, without an actual meeting being held, with the unanimous consensus of all members of the Audit Committee. The President shall decide on whether issues are of an urgent nature.

Presidential and Nomination Committee

In March 2017, the Company established a Presidential and Nomination Committee composed of four members appointed by the Supervisory

Board amongst its members. The first members of the Presidential and Nomination Committee were as follows: Rainer Seele (President), Manfred Leitner (Deputy President), Dan Manolescu (member – independent) and Joseph Bernhard Mark Mobius (member).

Following the appointment by the Ordinary GMS of the membership of the Supervisory Board for a new four year mandate, the Supervisory Board approved the new composition of the Presidential and Nomination Committee with effect as of April 28, 2017 and until the expiration of the current mandate of the Supervisory Board, respectively April 28, 2021, as follows: Rainer Seele (President), Manfred Leitner (Deputy President), Joseph Bernhard Mark Mobius (member) and Mihai Busuioc (member - independent).

As of October 26, 2017, the Supervisory Board approved the appointment of Sevil Shhaideh as member of the Presidential and Nomination Committee following Mihai Busuioc's waiver of his mandate.

Therefore, at the end of 2017, as well as at the date of this report, the Presidential and Nomination Committee consisted of the following four members: Rainer Seele (President), Manfred Leitner (Deputy President), Joseph Bernhard Mark Mobius (member) and Sevil Shhaideh (member - independent).

The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in the Executive Board. In addition, the Presidential and Nomination Committee has the right to make recommendations concerning the proposal of candidates for appointment in the Supervisory Board.

Executive Board

Executive Board members

The Executive Board of the Company comprises five members, appointed by the Supervisory Board for a mandate of four years running until April 17, 2019.

At the beginning of 2017, the Executive Board was composed of the following members: Mariana Gheorghe (CEO and President), Andreas Matje

(CFO and member), Peter Rudolf Zeilinger (member in charge with Upstream activity), Neil Anthony Morgan (member in charge with Downstream Oil activity) and Lăcrămioara Diaconu-Pințea (member in charge with Downstream Gas activity).

The Supervisory Board appointed Stefan Waldner as CFO and member of the Executive Board, starting July 1, 2017, following Andreas Matje's waiver of his mandate effective with the same date.

Likewise, the Supervisory Board appointed Christina Verchere as the new President of the Executive Board and CEO of OMV Petrom following Mariana Gheorghe's waiver of her mandate. Christina Verchere accepted her appointment and she will assume the position at the latest with effect from May 21, 2018. The waiver of Mariana Gheorghe shall become effective on the date when Christina Verchere takes office, but in any event on May 20, 2018, at the latest.

Therefore, at the end of 2017, as well as at the date of this report, the Executive Board had the following composition:

Mariana Gheorghe (1956)

Chief Executive Officer and President of the Executive Board

She graduated from the Academy of Economic Studies, International Relations in 1979, the University of Bucharest, Law School in 1989 and London Business School, Corporate Finance evening program in 1995.

She worked for various Romanian companies before regime change in Romania and then in 1991 she joined the Ministry of Finance as deputy general director for international organizations. Between 1993 and 2006, she worked for the EBRD in London where she held various banking positions with a geographical focus on Southeastern Europe and the Caucasus Region and covering various industries and clients. After Petrom's privatization in 2004 and further to the EBRD's proposal, she became a member of the Board of Directors of Petrom until June 15, 2006, when she was appointed as CEO of Petrom. Starting April 2007, following the adoption of the two-tier management system, she is also the

President of the Executive Board.

In 2015 she was approved and currently acts also as non-executive member of the supervisory board of ING group and ING Bank, Nederland. She also acts as board member of various professional associations and not for profit organizations.

Stefan Waldner (1977)

Chief Financial Officer

Stefan Waldner holds Master's degrees in Social and Economic Sciences from the Vienna University of Economics and Business Administration and in International Management from the Community of European Management Schools (CEMS). He also followed various executive training programs in the USA and Switzerland. He started his career in Management Consulting and Investment Banking, led the Corporate Development and Mergers and Acquisitions function for OMV Group and was CFO of OMV Petrol Ofisi between 2014 and 2017. He joined OMV Petrom on July 1, 2017 as CFO and member of the Executive Board.

New CFO appointed starting July 1

Peter Rudolf Zeilinger (1965)

Responsible for Upstream

He holds a Masters of Engineering degree in Petroleum Engineering from the Technical University of Clausthal-Zellerfeld in Germany. In the past, he held various international technical and management positions within OMV Group as well as in OMV Petrom, including the position as OMV Petrom's Head of Domestic Assets during 2008-2011. Prior to his return to Romania, he led the Australasia Region of OMV in Wellington as Managing Director OMV New Zealand LTD and Director of OMV Australia PTY Ltd. He was appointed member of the OMV Petrom Executive Board starting April 1, 2016.

Neil Anthony Morgan (1959)

Responsible for Downstream Oil

He graduated in Chemical Engineering from the University of Salford (Manchester, UK). His experience in the Refining and Petrochemicals business spans over 20 years. Before joining Petrom, he worked four years for Petronas Penapisan (Malaysia), where he held the position

of Project Director, Refinery Expansion Project. Prior to Petronas, he worked for 12 years for Engen Petroleum (Durban, South Africa). After joining Engen Petroleum in 1992 as a Process Control Specialist, he held several positions during his tenure there, from Chief Engineer Process Control and Information Technology to Technical Services Manager and Operations Manager. During 1985-1990, he was Production Manager, Operations Manager and Chief Process Engineer in Sentrachem Ltd (Johannesburg, South Africa). He joined Petrom in 2008 and was assigned responsibility for Refining and Petrochemicals. Starting April 17, 2011, further to the consolidation of OMV Petrom Group's marketing activities in OMV Petrom Marketing S.R.L., he has taken over responsibility for the Marketing activity becoming Executive Board member of OMV Petrom.

Lăcrămioara Diaconu-Pințea (1973)
Responsible for Downstream Gas

She graduated from the Academy of Economic Studies Bucharest in 1997 with a degree in Finance and from the MBA program of Wirtschaftsuniversität Wien (University of Economics Vienna) in 2008. She started her career in Petrom in 1998 in the Strategy, Planning and Development Division. Subsequently, she held various managerial positions within Petrom, from Corporate Development Director having responsibilities in Mergers and Acquisitions, Investor Relations and Strategy, to Director of Business Unit Power since its establishment in 2007. During 2012-2013, she was Vice-President Investor Relations for OMV Group. Subsequently, she was in charge with Exploration & Production Business Support of OMV E&P GmbH in Vienna until April 2015. She was appointed member of the OMV Petrom Executive Board starting April 17, 2015.

Executive Board main duties and powers

The main powers of the Executive Board, performed under the supervision and control of the Supervisory Board, are:

- ▶ to establish the strategy and the policies regarding the development of the Company, including the organizational structure of the

Company and the operational divisions;

- ▶ to submit annually for the approval of the GMS, within four months after the end of the financial year, the report regarding the business activity of the Company, the financial statements for the previous year, as well as the business activity and budget projects of the Company for the current year;
- ▶ to conclude legal acts on behalf of and for the account of the Company, with observance of matters reserved to the GMS or to the Supervisory Board;
- ▶ to hire and to dismiss, and to establish the duties and responsibilities of the Company's personnel, in line with the Company's overall personnel policy;
- ▶ to undertake all the measures necessary and useful for the management of the Company, implied by the daily management of each division or delegated by the GMS or by the Supervisory Board, with the exception of those reserved to the GMS or to the Supervisory Board through operation of law or of the Articles of Association;
- ▶ to exercise any competence delegated by the Extraordinary GMS.

The Executive Board reports to the Supervisory Board on a regular basis on all relevant issues concerning the course of business, strategy implementation, the risk profile and risk management of the Company.

Moreover, the Executive Board ensures that the provisions of the relevant capital markets legislation are complied with and implemented by the Company. Likewise, the Executive Board ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the Company.

The members of the Executive Board have the duty to disclose immediately to the Supervisory Board any material personal interests they may have in transactions of the Company as well as all other conflicts of interest. Furthermore, they have the duty to notify other Executive Board colleagues of such interests forthwith.

All business transactions between the Company and the members of the Executive Board as well

as persons or companies closely related to them must be in accordance with normal business standards and applicable corporate regulation. Such business transactions as well as their terms and conditions require the prior approval of the Supervisory Board.

Executive Board organization

Responsibilities of the Executive Board members, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations.

The Executive Board may hold meetings in person or by telephone or video conference. The meetings of the Executive Board are held regularly (at least once every two weeks, but usually every week) and whenever necessary for the operative management of the Company's daily business.

The Executive Board shall have a quorum if all members were invited and if at least three members are personally present. The Executive Board shall pass its resolutions by simple majority of the votes cast. In the event of a tie, the President shall have a casting vote. However, the President shall endeavor in her/his best efforts to achieve that, to the extent possible, resolutions are passed unanimously.

Should the nature of the situation require it, the Executive Board can pass a resolution by circulation based on the written unanimous agreement, without an actual meeting being held. The President shall assess whether such a procedure is called for. Such procedure may not be used for resolutions pertaining to the annual financial statements of the Company or its registered share capital.

In 2017, the Executive Board met 56 times in person and passed resolutions by circulation on 3 other occasions in order to approve all matters requiring its approval in accordance with the Articles of Association and the Company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the Company and to inform each other about all relevant issues of their activity.

Women's advancement

The Company supports gender diversity and promotion of women in management positions although acknowledges the gender gap in oil and gas industry.

By being part of OMV Group, OMV Petrom has acceded in 2013 to the Group diversity strategy, striving to meet the Group key performance indicators: 30% women in top management positions and 35% women in upper management positions by 2020. This proves strong and long term commitment in supporting women in top management positions.

OMV Petrom has two women in the Executive Board: Mariana Gheorghe, the President of the Executive Board and Lăcrămioara Diaconu-Pințea, Executive Board member in charge with Downstream Gas. Starting 26 October 2017, OMV Petrom Supervisory Board has also a female member, namely Sevil Shhaideh. Moreover, at the end of 2017, 42.4% of the first line directors reporting to the Executive Board were women, whilst the percentage of women in upper management in total (directors and head of departments) was 27.4%. The proportion of women in the OMV Petrom Group as a whole was 22% as of year end.

Under the diversity umbrella, OMV Petrom also runs programs focusing on the gender component. One such an example is Women Leadership Cross Companies Mentoring, dedicated mainly to women leaders, women with potential for a leadership position or at the mid-stages of their career. This program matches women in middle management positions with highly experienced leaders from other companies, with the aim to provide them with the knowledge and the attitude they need to act as organizational leaders and assume corresponding roles.

OMV Petrom is committed to protecting the rights, opportunities of all employees, by promoting parity and eliminating gender bias, by offering learning opportunities in diversity and by making available to all employees an

OMV Petrom supports
gender diversity

Ombudsman Department to which employees may raise work related issues, including gender related, namely the PetrOmbudsman.

Basic Principles of Remuneration

The oil and gas industry volatile price environment set up coupled with the latest workforce dynamics have emphasized the need to design financially sustainable and flexible compensation and benefits policies. Also, to maintain long-term competitiveness, OMV Petrom has set a performance and development based organization and, correspondently, a performance-based reward management system, embedding the company's principles of People and Organisational Culture related strategy pillar "Foundation".

OMV Petrom's remuneration principles are targeting more than just being compliant with the legislation. The Company places people at the core of its business, being one of the main pillars of the Company's success.

Consistent with the objective to be a reputable employer, the Company's remuneration principles utilize a balanced mix of fixed and variable, monetary and non-monetary components in order to attract, recruit, motivate, train, develop, promote and retain the best qualified people. Remuneration packages are set to achieve internal equity, but at the same time to remain externally competitive with the local and international market in which the Company operates and to make people feel encouraged to create sustainable results and add value to the business.

Remuneration of the Supervisory Board members

The annual Ordinary GMS approves yearly the remuneration of the Supervisory Board members for the current year. Such remuneration has two components: (i) the remuneration of the Supervisory Board members, and (ii) the additional remuneration of the members of the Supervisory Board who are also members of committees established at the level of the Supervisory Board.

In addition, for the proper running of their activity, Supervisory Board members may receive also

some benefits in kind, such as mobile device for business and reasonable private use and liability insurance.

Remuneration of the Executive Board members

The remuneration of the members of the Executive Board consists of fixed remuneration, paid monthly either in EUR or RON, based on various contractual arrangements, and performance related remuneration, which includes both short and long-term elements. The measures / key performance indicators for the performance related component are based on financial and non-financial metrics.

For properly carrying out their activity, Executive Board members receive also some benefits in kind, such as a company car and a mobile device for business and reasonable private use. In addition, Executive Board members benefit also of international health insurance and liability insurance.

In case of unilateral termination by the Company of their mandate agreement, Executive Board members are entitled to six fixed gross monthly remuneration payable according to their management agreement with the Company.

Remuneration of other staff

The employees of OMV Petrom are employed under local Romanian terms and conditions and the salaries are therefore set in RON. The employment contracts are concluded with OMV Petrom and governed by Romanian law. Reflecting additional responsibilities in the group of OMV Petrom companies, there are employees with an additional employment contract with other entities within OMV Petrom Group.

The remuneration of OMV Petrom employees is at competitive levels for the relevant oil & gas industry and includes: (i) a fixed base remuneration, paid monthly as a net salary determined by applying to the base gross salary the income tax quotas and social contributions, (ii) other fixed payments, such as fixed bonuses and special allowances according to the Collective Labour Agreement, (iii) other statutory and non-

statutory benefits, such as private insurance, holiday indemnity / special days off and, depending on the assigned position, a company car or car compensation fee and (iv) short term

(quarterly and / or annual) performance-related components. The measures/ key performance indicators used are based on financial and non-financial metrics.

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
Section A - Responsibilities			
A.1. All companies should have internal regulation of the Board which includes terms of reference/ responsibilities for Board and key management functions of the company, applying, among others, the General Principles of this Section.	✓		<p>Since April 2007, OMV Petrom is managed in a two-tier system by an Executive Board, which manages the daily business of the Company under the supervision of the Supervisory Board.</p> <p>The Company's corporate governance structure and principles, as well as competences and responsibilities of the GMS, the Supervisory Board and the Executive Board are laid down in the Articles of Association, the Rules and Procedures of the GMS, the internal rules of the Supervisory Board and of the Executive Board, as well as in other relevant internal regulations.</p>
A.2. Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	✓		<p>The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.</p> <p>Moreover, the Company has in place internal rules on how to deal with conflicts of interest.</p>
A.3. The Supervisory Board should have at least five members.	✓		The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Company's Articles of Association.

^{ix} The statement summarises the main highlights of the Bucharest Stock Exchange Corporate Governance Code's provisions. For the full text of the Bucharest Stock Exchange Corporate Governance Code please refer to Bucharest Stock Exchange website www.bvb.ro.

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>A.4. The majority of the members of the Board should be non-executive. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Supervisory Board should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.</p>	✓		<p>OMV Petrom's governance follows a two-tier system, with the Executive Board ensuring the management of the Company under the control and supervision of the Supervisory Board. The Supervisory Board comprises nine members who are all non-executive. Therefore, the balance between executives and non-executives is ensured.</p> <p>On the occasion of each (re)appointment of Supervisory Board members, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company law), consisting in an individual personal assessment done by the relevant Supervisory Board member, followed by an external assessment.</p> <p>Moreover, for the purpose of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2017.</p> <p>Following this evaluation, it resulted that at all times during 2017 there were three Supervisory Board members that met all the independence criteria provided by the Corporate Governance Code. Information on the independence status of the members of the Supervisory Board is included on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section, and in the Supervisory Board Report.</p>
<p>A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.</p>	✓		<p>Information on Supervisory Board and Executive Board members' permanent professional commitments and engagements, including executive and non-executive positions in companies and not-for-profit institutions are included in Supervisory Board and Executive Board members' CVs, available on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.	✓		The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations. The Company has put in place internal rules on how to deal with conflicts of interest.
A.7. The company should appoint a Board secretary responsible for supporting the work of the Board.	✓		The Company has a General Secretary, supporting the works of the Executive Board and of the Supervisory Board.
A.8. The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	✓		The Supervisory Board undergoes yearly a self-evaluation process, based on a Self-Evaluation Guideline providing for the purpose, criteria and frequency of such an evaluation. Initially the self-evaluation was conducted under the leadership of the President of the Supervisory Board, but starting June, 23 2017 this attribution was taken over by the President of the Presidential and Nomination Committee. The outcome of the Supervisory Board self-evaluation for 2017 is presented in the Supervisory Board Report.
A.9. The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	✓		<p>Company's Executive Board meetings are held regularly (at least once every two weeks, but usually every week), while the Supervisory Board meets whenever necessary, but at least once every three months. Details on the number of and attendance to the meetings of the Executive Board and the Supervisory Board, including the Audit Committee and the Presidential and Nomination Committee, during 2017, are included in the Supervisory Board Report and Corporate Governance Report.</p> <p>The reports of the Supervisory Board and Executive Board for 2017 are included in the Annual Report and submitted for Ordinary GMS's approval.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
A.10. The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	✓		<p>Following the independence evaluation of the Supervisory Board members, as per the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company Law), it resulted that, at all time during 2017, there were three Supervisory Board members that met all the independence criteria.</p> <p>Information on the independence status of the members of the Supervisory Board is included on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section, and in the Supervisory Board Report.</p>
A.11. The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.		✓	<p>The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Company's Articles of Association and applicable law. Prior to the Ordinary GMS, their CVs are available for shareholders' consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board.</p> <p>The Executive Board members are appointed by decision of the Supervisory Board with the majority of votes, according to the Company's Articles of Association.</p> <p>On March 23, 2017, the Supervisory Board established a Presidential and Nomination Committee composed of four members appointed amongst its members. Therefore being members of the Supervisory Board, all members of the Presidential and Nomination Committee are non-executives. Moreover, one member of the Presidential and Nomination Committee is independent. The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in the Executive Board. In addition, the Presidential and Nomination Committee has the right to make recommendations concerning the proposal of candidates for appointment in the Supervisory Board. Thus, starting March 23, 2017, the Company changed its compliance status with this provision from "non-compliance" to "partial compliance" given that currently the Nomination and Presidential Committee has only one independent member.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
Section B - Risk management and internal control system			
<p>B.1. The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.</p>	✓		<p>OMV Petrom's Supervisory Board has set up an Audit Committee among its members. Therefore, the Audit Committee's members are all non-executives.</p> <p>Until April 2017, the Audit Committee was composed of three Supervisory Board members, while starting April 28, 2017 the Audit Committee is composed of four Supervisory Board members. Based on the independence evaluation, it resulted that, at all times during 2017, the majority of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code.</p> <p>The Audit Committee includes members that have adequate qualifications relevant to the functions and responsibilities of the Audit Committee, while one member has also the necessary financial, audit and accounting expertise.</p>
<p>B.2. The audit committee should be chaired by an independent non-executive member.</p>		✓	<p>Being members of the Supervisory Board, all members of the Audit Committee, including the president of the Audit Committee, are non-executives.</p> <p>Based on the independence evaluation, it resulted that at all times during 2017, the majority of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code, which however did not include the president of the Audit Committee.</p> <p>Thus, currently the Company is only "partially compliant" with this provision, as the president of the Audit Committee fulfills only the condition of being non-executive, while the condition of being independent is not fulfilled.</p> <p>Although the Company considers that the independence and objectivity of the Audit Committee as a whole is not being impaired by the current membership of the Audit Committee, it aims to become again fully compliant with this provision in the future and for this purpose it is currently assessing possible alternatives.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
B.3. Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	✓		The Terms of Reference for the Audit Committee detail the roles and functions of the Audit Committee, consisting mainly in: <ul style="list-style-type: none"> ▶ examining and reviewing the annual separate and consolidated financial statements and the proposal for profit distribution; ▶ considering and making recommendations on the appointment, re-appointment or removal of the independent external financial auditor, which is to be elected by the Ordinary GMS; ▶ undertaking an annual assessment of the system of internal control, considering the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit Committee, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Supervisory Board; ▶ reviewing conflicts of interests in transactions of the Company and its subsidiaries with related parties; ▶ evaluating the efficiency of the internal control system and risk management system; ▶ monitoring the application of statutory and generally accepted standards of internal auditing; ▶ receiving regularly a summary of the main findings of the audit reports, as well as other information regarding the activities of the Internal Audit department and evaluating the reports of the internal audit team; ▶ examining and reviewing, before their submission to the Supervisory Board for approval, related party transactions that exceed or may be expected to exceed 5% of the Company's net assets in the previous financial year, in accordance with Related Party Transactions Policy.
B.4. The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	✓		
B.5. The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	✓		
B.6. The audit committee should evaluate the efficiency of the internal control system and risk management system.	✓		
B.7. The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	✓		Starting March 23, 2017, the attributions of the Audit Committee include also overseeing and approving the nature and level of non-audit services provided by the independent financial auditor to the Company, including by issuance of regulations/guidelines with regard to such services.

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
B.8. Whenever the Code mentions reviews or analyses to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	✓		The Audit Committee submits periodic reports to the Supervisory Board on the specific subjects assigned to it.
B.9. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	✓		The Company applies equal treatment to all its shareholders. According to the internal Policy on Related Party Transactions in place within the Company, related party transactions are considered on their merits in accordance with the normal industry standards, applicable laws and corporate regulations.
B.10. The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the audit committee and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	✓		Company adopted an internal Policy on Related Party Transactions providing for the main principles of review, approval and disclosure of related party transactions, according to the applicable regulations and Company's statutory documents, including the fact that related party transactions that exceed or may be expected to exceed, either single or connected, an annual value of 5% of the Company's net assets in the previous financial year are to be approved by the Supervisory Board following the approval of the Executive Board and based on the review of the Audit Committee of the respective transaction. OMV Petrom regularly submits reports on transactions with its related parties to the Financial Supervisory Authority and to the Bucharest Stock Exchange. Such disclosure reports are reviewed by the independent financial auditor according to the relevant laws in force.

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
B.11. The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	✓		Internal audits are carried out by a separate structural department within the Company, namely the Internal Audit department.
B.12. To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.		✓	<p>The Internal Audit Department administratively reports to the CEO. Still, the Internal Audit Department continues to maintain some functional reporting to the Executive Board, which makes the Company only “partially compliant” with this provision.</p> <p>Nonetheless, the Audit Committee is regularly informed about the main internal audit findings and other activities of the Internal Audit department. Moreover, the Audit Committee approves the audit charter (which stands for the terms of reference of the Internal Audit department and which describes its purpose, authority and responsibility) and also approves the annual internal audit plan. Therefore, in our opinion, the independence and objectivity of the internal audit function is not impaired by this reporting structure. Likewise, the Internal Audit Department did not encounter, in its past experience, cases that could be considered as jeopardizing its independence or objectivity due to these functional reporting lines.</p> <p>The Company is currently in assessment with the aim of becoming fully compliant with this provision in the future.</p>
Section C - Fair rewards and motivation			
<p>C.1. The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.</p> <p>Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p>		✓	<p>The Company does not have a remuneration policy in place. However, although not yet formalized, the Company has and applies, consistently, some principles of remuneration concerning the Supervisory Board and Executive Board members, the senior management and the other staff. Such basic principles of remuneration are included in the Corporate Governance Report. The development of a remuneration policy is currently envisaged.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
Section D - Building value through investors' relations			
<p>D.1. The company should have an Investor Relations function - indicated, by person(s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:</p> <p>D.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures.</p> <p>D.1.2. Professional CVs of the members of its governing bodies, Board members' other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;</p> <p>D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports);</p> <p>D.1.4. Information related to general meetings of shareholders;</p> <p>D.1.5. Information on corporate events;</p> <p>D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request;</p> <p>D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.</p>	✓		<p>The Company has a special department dedicated to investor relations that can be contacted via e-mail at investor.relations.petrom@petrom.com. Likewise, OMV Petrom has a special section of the corporate website dedicated to Investor Relations, where the following main information/documents are available, both in English and Romanian:</p> <ul style="list-style-type: none"> ▶ Articles of Association – in the Corporate Governance sub-section; ▶ Rules and Procedures of the GMS – in the GMS sub-section; ▶ Detailed professional CVs for all members of the Executive Board and Supervisory Board – in the Corporate Governance sub-section; ▶ Current reports and periodic reports – in the Investor News sub-section and Investor Reports and Presentations sub-sections; ▶ Convening notices and supporting materials for the GMS – in the GMS sub-section; ▶ Financial calendar and information on other corporate events – in the Financial calendar and events sub-section; ▶ Name and contact information of a person able to provide investors knowledgeable information on request – in the Contact sub-section; ▶ Investor Presentations, Annual and Interim Reports, Annual and Interim Financial Statements, both separate and consolidated, including also the independent financial auditor reports, as the case – in the Investor Reports and Presentations sub-section.
<p>D.2. A company should have an annual cash distribution or dividend policy. The annual cash distribution or dividend policy principles should be published on the corporate website.</p>	✓		<p>The Company's Dividend Policy is published on its corporate website in the Investor Relations section, Corporate Governance sub-section.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>D.3. A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts mean the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.</p>	✓		The Company has a Forecast Policy which is published on its corporate website in the Investor Relations section, Corporate Governance sub-section.
<p>D.4. The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.</p>	✓		The details regarding the organization of the GMS are mentioned in the Company's Articles of Association and the Rules and Procedures of the GMS, as well as briefly stated in the Corporate Governance Report. Likewise, OMV Petrom publishes for every GMS convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Company ensures that the GMSs are adequately conducted and well organized while the shareholders' rights are duly observed.
<p>D.5. The independent financial auditors should attend the shareholders' meetings when their reports are presented there.</p>	✓		The independent financial auditors attend the Ordinary GMS whereby the annual separate and consolidated financial statements are submitted for approval.

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	✓		<p>All matters submitted for GMS approval are subject to Supervisory Board approval according to Company's internal rules.</p> <p>Moreover, the Annual Report submitted for GMS approval contains a brief assessment of the internal controls and significant risk management system.</p>
D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	✓		<p>The Rules and Procedures of the GMS provide for the possibility for any professional, consultant, expert, financial analyst or accredited journalists to participate in the GMS, upon prior invitation from the President of the Supervisory Board.</p>
D.8. The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	✓		<p>The quarterly and semi-annual financial reports include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.</p>
D.9. A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	✓		<p>OMV Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for their investment decision. In 2017, OMV Petrom organized four conference calls with the occasion of publication of the quarterly results. In addition, the Company held one-to-one and group meetings and attended analyst and investor conferences, organized in Romania and abroad. For more details, please see also the Annual Report's section OMV Petrom on capital markets.</p> <p>The Investor Presentations were made available at the time of the meetings / conferences on the corporate website, in the Financial calendar and events section.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>D.10. If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.</p>	✓		<p>OMV Petrom conducts various activities regarding social and environmental responsibility.</p> <p>In this respect, the Company has a Sustainability Policy in line with the Group Sustainability Strategy, published on the corporate website in the Investor Relations section, Corporate Governance sub-section.</p> <p>More details may be found in the Sustainability Report for 2017 which will be issued by the Company by 30 June 2018, as per the legal requirements with reference to the disclosure of non-financial information.</p>

Declaration of the management

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2017, its financial performance and cash flows for the year then ended, in accordance with applicable accounting standards, and that the Directors' report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Group.

Bucharest, March 19, 2018
The Executive Board



Mariana Gheorghe
Chief Executive Officer
President of the EB



Stefan Waldner
Chief Financial Officer
Member of the EB



Peter Zeilinger
Member of the EB
Upstream



Lăcrămioara Diaconu-Pințea
Member of the EB
Downstream Gas

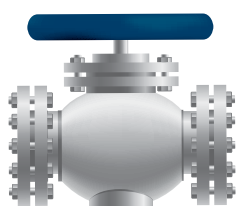


Neil Anthony Morgan
Member of the EB
Downstream Oil

Abbreviations and definitions

ABB	Accelerated Book Building
ANRE	Romanian Energy Regulatory Authority
bbl	barrel(s), i.e. 159 liters
bbl/d	bbl per day
bcf	billion cubic feet; 1 billion standard cubic meters = 35.3147 bcf for Romania or 34.7793 bcf for Kazakhstan
bcm	billion cubic meters
bn	billion
boe, kboe	barrels of oil equivalent, thousand barrels of oil equivalent
boe/d, kboe/d	boe per day, kboe per day
BET	a free float weighted capitalization index of the most liquid 13 companies listed on the BVB regulated market
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
Capital employed	Equity including minorities + net debt
CCS / CCS effects / Inventory holding gains / (losses)	<p>Current cost of supply</p> <p>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.</p> <p>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.).</p> <p>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.</p> <p>The current cost of supply is calculated monthly using data from our refinery's supply and production systems at Downstream Oil level.</p>
CEO	Chief Executive Officer
CFO	Chief Financial Officer
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 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) (%)
CO ₂	Carbon Dioxide
CV	Curriculum Vitae
EB	Executive Board
EBRD	European Bank for Reconstruction and Development
EU, EUR	European Union, euro(s)
EPS	Earnings per share = Net income attributable to stockholders divided by weighted number of shares
Clean CCS EPS	EPS adjusted for special items and CCS effects
Equity ratio	Total equity divided by total assets (%)
FCC	Fluid Catalytic Cracker
FRD	Field redevelopment
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GMS	General Meeting of Shareholders
HSSE	Health, Safety, Security and Environment
HFO	Heavy Fuel Oil
IFRS	International Financial Reporting Standards

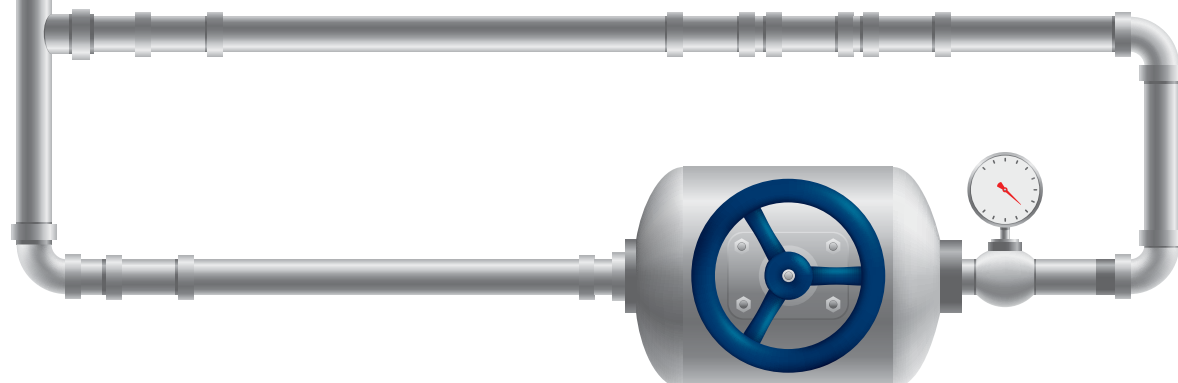
IT	Information Technology
JV	Joint venture
LPG	Liquefied Petroleum Gas
LSE	London Stock Exchange
LTIR	Lost time injury rate = Average injury frequency with one or more lost workday related to the working time performed
m, km	meter(s), kilometer(s)
mn	million
mom	month-on-month
MW; MWh	megawatt(s); megawatt hour(s)
NAG	Non-Associated Gas
n.m.	not meaningful
Net debt/(cash)	Interest bearing debts and financial lease liabilities less liquid funds (cash and cash equivalents)
NGL	Natural Gas Liquids – it refers to condensate only
NOPAT	Net Operating Profit After Tax. Profit on ordinary activities after taxes plus net interest on net borrowings, +/- result from discontinued operations, +/- tax effect of adjustments
OPEC	Organization of Petroleum Exporting Countries
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	New Romanian leu
RRR	Reserve Replacement Rate
S.A.	Romanian JSC - Joint stock company (Societate pe Acțiuni)
SCADA	Supervisory Control and Data Acquisition
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.
SPFO	Surface Production Facilities Optimization
S.R.L.	Romanian Ltd - Limited liability company (Societate cu Răspundere Limitată)
TOC	Tasbulat Oil Corporation
t, kt	metric tonne(s), thousand tonnes
TWh	terawatt hour(s)
US(A)	United States (of America)
UK	United Kingdom
USD	United States dollar(s)
VAT	Value-added tax
yoy	year-on-year



Consolidated financial statements and notes

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



Independent auditor's report

To the Shareholders of OMV Petrom S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OMV Petrom S.A. ("the Company") and its subsidiaries (together referred to as "the Group") with official head office in 22 Coralilor Street, Petrom City, District 1, Bucharest, Romania identified by sole fiscal registration number RO1590082, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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

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Description of each key audit matter and our procedures performed to address the matter

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of the carrying value of property, plant and equipment (Upstream)</p> <p>The carrying value of the Upstream property, plant and equipment amounted to RON 20,569 million as at 31 December 2017.</p> <p>Declines in crude oil and gas prices since 2014 have had a significant effect on the carrying value of the Group's Upstream tangible assets, as reflected by the Upstream impairment charges recorded in the 2015 financial statements.</p> <p>Under the International Financial Reporting Standards, an entity is required to assess whether triggers for potential additional impairment or reversal of impairment previously recorded exist. The assessment of whether there is an indication that an asset may be impaired requires significant judgement.</p> <p>The management established that the main risks and consequently the potential triggering events are estimates regarding long term Brent oil price, production volumes and production costs.</p> <p>The Group's disclosures about property, plant and equipment and related triggering events analysis are included in Note 2 (Judgements, Estimates and Assumptions) and Note 7 (Property, Plant and Equipment) to the financial statements.</p>	<p>We evaluated and tested management's assessment of the triggers for potential additional impairment or reversal of impairment previously recorded. Specifically our work included, but was not limited to the following procedures:</p> <ul style="list-style-type: none"> ▶ Analysed and evaluated the management's assessment of the existence of impairment indicators (triggering events); ▶ Compared the average oil price in 2017 with the estimated oil price in the budget prepared for 2017; ▶ Compared the actual production volumes and costs in 2017 of each cash generating unit with the production volumes and costs estimates in the budget prepared for 2017; ▶ Compared the future short and long term oil and gas prices used in the Group's budgets to consensus analysts' forecasts and those adopted by other international oil companies; ▶ Compared the main assumptions used in the impairment test performed in 2015 (oil prices, operating costs, production volumes, oil and gas reserves and discount rate) with the current forecasts approved as part of the Group's mid-term planning assumptions; ▶ Assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; ▶ Checked if there are significant downward revisions of oil and gas reserves to determine if they represent impairment indicators; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of the carrying value of Brazi Gas Fired Power Plant</p> <p>The carrying value of Brazi Gas Fired Power Plant amounted to RON 1,435 million as at 31 December 2017, after an impairment charge of RON 75 million recorded in 2017.</p> <p>Under the International Financial Reporting Standards, an entity is required to assess whether impairment indicators exist and if they exist, an impairment test is required.</p> <p>The assessment of the recoverability of the carrying amount of Brazi Gas Fired Power Plant requires judgement in assessing whether there is an indication that an asset should be impaired and in measuring any such impairment.</p> <p>The principal risk relates to management's estimates of future cash flows and discount rates, which are used to project the recoverability of the carrying value of the Brazi Gas Fired Power Plant. These future cash flows are mainly sensitive to assumptions regarding spark spreads (being the differences between the electricity prices and the gas and CO₂ certificates prices) and the power quantity produced.</p> <p>The Group's disclosures about intangible assets, property, plant and equipment and related impairment testing are included in Note 2 (Judgements, Estimates and Assumptions), Note 6 (Intangible assets) and Note 7 (Property, Plant and Equipment) to the financial statements.</p>	<p>We assessed and tested management's assessment of the recoverability of the carrying value of intangible assets and property, plant and equipment of the Brazi Gas Fired power plant cash generating unit by evaluating management's assumptions.</p> <p>Specifically our work included, but was not limited to the following procedures:</p> <ul style="list-style-type: none"> ▶ Performed a detailed understanding of the Group's internal process and related documentation flow and key controls associated with the impairment testing process; ▶ Compared the assumptions used within the future cash flow models to approved budgets and business plans; ▶ Checked if sufficient and appropriate evidence exists to support for the main assumptions included in the determination of value in use; ▶ Involved our valuation specialists to assist us in performing industry benchmarking and analysis over spark spreads and discount rates; ▶ Checked the mathematical accuracy of management's cash flow model for determining the value-in-use and its conformity with the requirements of the International Financial Reporting Standards; ▶ Reviewed the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of intangible exploration and evaluation (E&E) assets</p> <p>The carrying value of the intangible E&E assets amounted to RON 2,510 million at 31 December 2017.</p> <p>Under IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p> <p>The assessment of the carrying value requires management to apply significant judgements and estimates in assessing whether any impairment has arisen at year end, and in quantifying any such impairment.</p> <p>The key estimates and assumptions relate to management's intention to proceed with a future work program for a prospect or licence, the likelihood of licence renewal, and the success of drilling and geological analysis to date.</p> <p>The Group's disclosures about intangible E&E assets and related impairment testing are included in Note 2 (Judgements, Estimates and Assumptions), Note 6 (Intangible Assets) and Note 22 (Cost Information) to the financial statements.</p>	<p>We evaluated management's assessment of the carrying value of E&E assets performed with reference to the criteria of IFRS 6 and the Group's accounting policy. Specifically our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> ▶ Assessed the management's intention to carry out exploration and evaluation activity for the main E&E projects, which included discussions with management and review of the Executive Board minutes of meetings where exploration plans and strategies were discussed; ▶ Read Executive Board minutes of meetings and consider whether there were negative indicators that certain projects might be unsuccessful. Discussed with the management about the status of the largest exploration projects; ▶ Tested the actual versus budget analysis prepared by management for exploration and evaluation largest projects and inspected the evidence supporting the analysis to determine if there is any indication that certain projects might be unsuccessful; ▶ Assessed whether the Group has the ability to finance any planned future exploration and evaluation activity, which included review of the Executive Board minutes of meetings for any indications about the lack of such ability or intention and checking that the investment budget for the next year includes funds for main exploration and evaluation projects; ▶ Assessed the existence of any fields where the Group's right to explore is either at, or close to, expiry and reviewed management's assessment whether there are any risks related to renewal of the licence; ▶ Reviewed the supporting evidence where an exploration and evaluation asset has been impaired; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
<p>Estimation of oil and gas reserves</p> <p>Oil and gas reserves are an indicator of the future potential of the Group's performance. Furthermore, they have an impact on the financial statements as they are the basis for production profiles in future cash flow estimates and basis for depreciation and amortization for the core assets in the Upstream segment.</p> <p>The estimation of oil and gas reserves requires significant judgement and assumptions made by management and engineers.</p> <p>The Group's disclosures about estimation of oil and gas reserves are included in Note 2 (Judgements, Estimates and Assumptions) to the financial statements.</p>	<p>Our audit procedures have focused on management's estimation process in the determination of oil and gas reserves. Specifically our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> ▶ Performed a detailed understanding of the Group's internal process and related documentation flow and key controls associated with the oil and gas reserves estimation process; ▶ Tested the Group-wide key controls over the reserves review process; ▶ Analysed the internal certification process for technical and commercial specialists who are responsible for oil and gas reserves estimation; ▶ Assessed the competence of internal specialists, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; ▶ Tested whether significant additions or reductions in oil and gas reserves were made in the appropriate period and in compliance with the Group's Reserves and Resources Technical Standards and Guidelines; ▶ Tested that the updated oil and gas reserves estimates were included appropriately in the Group's consideration of impairment and in accounting for depreciation and amortization; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
<p>Estimation of decommissioning and restoration provisions and environmental provisions</p> <p>The total decommissioning and restoration provision and the environmental provision amounted to RON 7,702 million and RON 277 million respectively at 31 December 2017.</p> <p>The Group's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation activities.</p> <p>The key estimates and assumptions relate to management's estimates of future costs, discount rates and inflation rates which are used to project the decommissioning, restoration and environmental obligations.</p> <p>The Group's disclosures about decommissioning, restoration and environmental obligations are included in Note 2 (Judgements, Estimates and Assumptions) and Note 14 (Provisions) to the financial statements.</p>	<p>We assessed management's annual estimation of decommissioning and restoration provisions and environmental provisions. Specifically our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> ▶ Performed a detailed understanding of the Group's internal provision estimation process and the related documentation flow and the assessment of the design and implementation of the controls within the process; ▶ Compared the current estimates of decommissioning, restoration and environmental costs with the actual costs incurred in previous periods. Where no previous data was available, we have reconciled cost estimates to third party support or the Group's engineers' estimates; ▶ Discussed with the management the estimates of allocation over time of works to be performed for surface and subsurface decommissioning for wells; ▶ Inspected supporting evidence for any material revisions in cost estimates during the year; ▶ Assessed the sensitivity analyses to understand the potential impact of reasonable changes in assumptions on the provisions recorded; ▶ Involved our valuation specialists to assist us in performing industry bench marking and analysis over discount rates and inflation rates; ▶ Tested the mathematical accuracy of management's decommissioning and restoration provision and environmental provision calculations; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of receivables from the Romanian State</p> <p>As part of the privatization agreement, the Group is entitled to the reimbursement by the Romanian State of part of wells abandonment (decommissioning) and environmental costs incurred to restore and clean up areas pertaining to activities prior to privatization in 2004. Consequently, the Group has recorded as receivable from the Romanian State the estimated decommissioning obligations having a net present value of RON 1,815 million as at December 31, 2017 and the environmental liabilities in Downstream Oil with a total net present value of RON 205 million, as these were existing prior to privatization of OMV Petrom S.A.</p> <p>The assessment of the recoverability of the receivables from the Romanian State requires management to make significant judgements and estimates to assess the uncertainty regarding the expenditure recoverable from Romanian State. The assessment process considers inter alia history of amounts claimed, documentation process related requirements and potential litigation or arbitration proceedings.</p> <p>The Group's disclosures about Environmental and Decommissioning State Receivables are included in Note 9 (Trade Receivables and Other Financial Assets) to the financial statements.</p>	<p>We assessed the management's estimate regarding recoverability of the receivables from the Romanian State. Our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> ▶ Read the stipulations of the Annex P of the privatisation agreement dated 23 July 2004, related to the acquisition by OMV Aktiengesellschaft of shares in the National Petroleum Company Petrom SA, as approved by Law no. 555/2004. Annex P includes stipulations related to the obligation of the seller (i.e. Ministry of Economy and Commerce) to reimburse the Group for historical environmental losses and abandonment costs, provided certain conditions are met; ▶ Reviewed the management's assessment of the recoverability of the receivables from the Romanian State, including the history of amounts claimed vs. amounts accepted and reimbursed, and discuss about the status of the notices of claims submitted by the Group and of the Arbitration process; ▶ Traced the receivables for which notices of claim have been submitted to the respective notices of claims; ▶ Traced the receivables for which decommissioning was performed but the notices of claim have not yet been submitted to the respective decommissioning costs; ▶ Traced the receivables for which decommissioning has not yet been performed against the respective decommissioning provisions; ▶ Discussed with the management the estimates of timing of collection; ▶ Tested the mathematical accuracy of the calculation of the net present value of the receivables recorded; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

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Other information

The other information comprises the Annual Report which includes the consolidated Directors' Report and the consolidated Report on payments to governments, but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Annual Report, prior to the date of our auditor's report, and we expect to obtain the Non-Financial declaration, as part of a separate report, after the date of our auditor's report. Management is responsible for the other information.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters

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that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

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

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

- a) in the consolidated Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2017;
- b) the consolidated Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;
- c) based on our knowledge and understanding concerning the Group and its environment gained during our audit of the consolidated financial statements as at December 31, 2017, we have not identified information included in the consolidated Directors' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the General Meeting of Shareholders on April 25, 2017 to audit the consolidated financial statements for the financial year end December 31, 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 7 years covering the financial periods end December 31, 2011 till December 31, 2017.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on February 15, 2018.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

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In addition to statutory audit services and services disclosed in the notes to the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL

15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Registered with the Chamber of Financial Auditors in Romania

Nr. 77/15 August 2001



Name of the Auditor/ Partner: Bogdan Ion

Registered with the Chamber of Financial Auditors in Romania

No. 1565/29 July 2004

Bucharest, Romania

19 March 2018

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OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Intangible assets	6	2,611.13	2,535.87
Property, plant and equipment	7	27,143.50	28,325.55
Investments in associated companies	8	49.62	43.69
Other financial assets	9	2,317.15	2,592.93
Other assets	10	59.94	78.88
Deferred tax assets	18	1,545.35	1,552.27
Non-current assets		33,726.69	35,129.19
Inventories	11	2,082.80	1,950.01
Trade receivables	9	1,513.03	1,540.04
Other financial assets	9	243.96	211.07
Other assets	10	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	12	5.43	272.92
Total assets		42,058.79	41,414.11
EQUITY AND LIABILITIES			
Share capital	13	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	14	224.84	224.55
Interest-bearing debts	15	558.68	1,140.70
Provisions for decommissioning and restoration obligations	14	7,274.81	7,923.46
Other provisions	14	274.24	620.84
Other financial liabilities	16	160.51	177.25
Other liabilities	17	16.08	-
Non-current liabilities		8,509.16	10,086.80

The notes on pages 118 to 207 form part of these consolidated financial statements.

	Notes	December 31, 2017	December 31, 2016
Trade payables	16	2,805.44	2,289.75
Interest-bearing debts	15	328.62	409.62
Income tax liabilities		80.70	130.57
Other provisions and decommissioning	14	904.33	729.27
Other financial liabilities	16	371.25	220.29
Other liabilities	17	638.26	705.80
Current liabilities		5,128.60	4,485.30
Liabilities associated with assets held for sale	12	-	135.82
Total equity and liabilities		42,058.79	41,414.11

These consolidated financial statements were approved on March 19, 2018.



Mariana Gheorghe,
Chief Executive Officer
President of the EB



Stefan Waldner,
Chief Financial Officer
Member of the EB




Peter Zeilinger,
Member of the EB
Upstream



Lăcrămioara Diaconu-Pințea,
Member of the EB
Downstream Gas



Neil Morgan,
Member of the EB
Downstream Oil



Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

The notes on pages 118 to 207 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2017	December 31, 2016
Sales revenues	27	19,435.08	16,646.60
Other operating income	19	363.57	488.14
Net income from equity-accounted investments	20	8.36	6.93
Total revenues and other income		19,807.01	17,141.67
Purchases (net of inventory variation)		(6,697.53)	(5,304.37)
Production and operating expenses		(3,161.57)	(3,588.82)
Production and similar taxes		(929.38)	(903.88)
Depreciation, amortization and impairment charges	22	(3,345.37)	(3,314.10)
Selling, distribution and administrative expenses		(1,971.04)	(1,899.67)
Exploration expenses		(308.28)	(262.19)
Other operating expenses	21	(123.49)	(392.44)
Operating Result	27	3,270.35	1,476.20
Interest income	23	92.70	172.78
Interest expenses	23	(398.76)	(357.24)
Other financial income and expenses	24	(60.17)	(26.81)
Net financial result		(366.23)	(211.27)
Profit before tax		2,904.12	1,264.93
Taxes on income	25	(414.81)	(227.28)
Net income for the year		2,489.31	1,037.65
thereof attributable to stockholders of the parent		2,490.81	1,043.21
thereof attributable to non-controlling interests		(1.50)	(5.56)
Basic earnings per share (RON)	26	0.0440	0.0184

These consolidated financial statements were approved on March 19, 2018.



Mariana Gheorghe,
Chief Executive Officer
President of the EB



Stefan Waldner,
Chief Financial Officer
Member of the EB



Peter Zeilinger,
Member of the EB
Upstream



Lăcrămioara Diaconu-Pințea,
Member of the EB
Downstream Gas



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Member of the EB
Downstream Oil



Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

The notes on pages 118 to 207 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in million RON, unless otherwise specified)

	December 31, 2017	December 31, 2016
Net income for the year	2,489.31	1,037.65
Exchange differences from translation of foreign operations	41.53	(10.44)
Realized gains on hedges recycled to income statement	-	(14.21)
Total of items that may be reclassified ("recycled") subsequently to the income statement	41.53	(24.65)
Remeasurement gains on defined benefit plans	10.16	15.78
Total of items that will not be reclassified ("recycled") subsequently to the income statement	10.16	15.78
Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	25.16	(8.33)
Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(1.63)	(2.52)
Total income tax relating to components of other comprehensive income	23.53	(10.85)
Other comprehensive income/ (loss) for the period, net of tax	75.22	(19.72)
Total comprehensive income for the period	2,564.53	1,017.93
thereof attributable to stockholders of the parent	2,559.94	1,025.91
thereof attributable to non-controlling interests	4.59	(7.98)

The notes on pages 118 to 207 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

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

Consolidated statement of changes in equity for the year ended December 31, 2017

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2017	5,664.41	21,116.26	-	(318.95)	307.65	(0.02)	26,769.35	(63.16)	26,706.19
Net income/(loss) for the year	-	2,490.81	-	-	-	-	2,490.81	(1.50)	2,489.31
Other comprehensive income/(loss) for the year	-	8.53	-	192.68	(132.08)	-	69.13	6.09	75.22
Total comprehensive income/(loss) for the year	-	2,499.34	-	192.68	(132.08)	-	2,559.94	4.59	2,564.53
Dividends distribution	-	(849.66)	-	-	-	-	(849.66)	(0.07)	(849.73)
Other increases	-	-	-	-	0.04	-	0.04	-	0.04
Balance at December 31, 2017	5,664.41	22,765.94	-	(126.27)	175.61	(0.02)	28,479.67	(58.64)	28,421.03

Note: For details on equity components, see Note 13.

Consolidated statement of changes in equity for the year ended December 31, 2016

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2016	5,664.41	20,059.80	11.94	(244.69)	251.69	(0.02)	25,743.13	(55.10)	25,688.03
Net income/ (loss) for the year	-	1,043.21	-	-	-	-	1,043.21	(5.56)	1,037.65
Other comprehensive income/(loss) for the year	-	13.25	(11.94)	(74.26)	55.65	-	(17.30)	(2.42)	(19.72)
Total comprehensive income/(loss) for the year	-	1,056.46	(11.94)	(74.26)	55.65	-	1,025.91	(7.98)	1,017.93
Dividends distribution	-	-	-	-	-	-	-	(0.08)	(0.08)
Other increases	-	-	-	-	0.31	-	0.31	-	0.31
Balance at December 31, 2016	5,664.41	21,116.26	-	(318.95)	307.65	(0.02)	26,769.35	(63.16)	26,706.19

Note: For details on equity components, see Note 13.

The notes on pages 118 to 207 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2017	December 31, 2016
Cash flow from operating activities			
Profit before taxation		2,904.12	1,264.93
Adjustments for:			
Interest income	23	(49.52)	(139.55)
Interest expenses and other financial expenses	23, 24	109.87	97.22
Net movement in provisions and allowances for:			
- Investments		-	2.00
- Inventories and similar items		(40.46)	(67.63)
- Receivables		89.98	210.40
- Pensions and similar liabilities		10.70	1.58
- Decommissioning and restoration obligations		39.60	(14.32)
- Other provisions for risk and charges		(192.78)	(105.32)
Discounting / Write-off of receivables and other non-cash effects		154.22	64.85
Income from associated companies	8	(6.14)	(2.98)
Gain on transfer of business	31	(3.14)	-
Net gain on disposal of Group companies and other investments	31	(1.71)	-
Gain on disposal of non-current assets	19, 20	(16.73)	(9.01)
Depreciation, amortization and impairment expense, net	22	3,580.35	3,463.68
Other non-cash items		49.09	(16.18)
Interest received		40.59	9.22
Interest paid		(67.97)	(72.10)
Tax on profit paid		(447.04)	(204.87)
Cash generated from operating activities before working capital movements		6,153.03	4,481.92
(Increase)/Decrease in inventories		(178.96)	8.56
Increase in receivables and other assets		(212.94)	(62.02)
Increase in liabilities		193.20	25.97
Net cash generated from operating activities		5,954.33	4,454.43

The notes on pages 118 to 207 form part of these consolidated financial statements.

	Notes	December 31, 2017	December 31, 2016
Cash flow from investing activities			
Investments			
Intangible assets and property, plant and equipment		(2,606.72)	(2,917.44)
Investments and other financial assets	31	-	(0.67)
Disposals			
Proceeds from sale of non-current assets		27.78	22.60
Proceeds from transfer of business	31	52.48	-
Proceeds from sale of Group companies, net of cash disposed	31	79.78	-
Proceeds from disposal of other investments		0.43	-
Net cash used for investing activities		(2,446.25)	(2,895.51)
Cash flow from financing activities			
Net repayments of borrowings	31	(682.29)	(375.29)
Dividends paid		(842.18)	(0.59)
Net cash used for financing activities		(1,524.47)	(375.88)
Effect of foreign exchange rate changes on cash and cash equivalents		(0.56)	0.40
Net increase in cash and cash equivalents		1,983.05	1,183.44
Cash and cash equivalents at the beginning of the year		1,996.00	812.56
Cash and cash equivalents at the end of the year		3,979.05	1,996.00

The notes on pages 118 to 207 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION

OMV Petrom S.A. (22 Coralilor Street, 013329 Bucharest, Romania), has activities in Upstream, Downstream Gas and Downstream Oil business segments and it is listed on Bucharest Stock Exchange under "SNP" code and on London Stock Exchange under "PETB" and "PETR" codes.

Stockholders' structure as at December 31, 2017 was as follows:	Percent
OMV Aktiengesellschaft	51.011%
Romanian State	20.639%
Fondul Proprietatea S.A	9.998%
Legal entities and private individuals	18.352%
Total	100.000%

Stockholders' structure as at December 31, 2016 was as follows:	Percent
OMV Aktiengesellschaft	51.011%
Romanian State	20.639%
Fondul Proprietatea S.A.	12.565%
Legal entities and private individuals	15.785%
Total	100.000%

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

As of October 20, 2016, the GDRs have been admitted to listing on the standard segment of the official list of the United Kingdom Financial Conduct Authority and admitted to trading on the London Stock Exchange's main market for listed securities.

In September 2017, Fondul Proprietatea S.A. sold a 2.567% stake in OMV Petrom S.A., through an Accelerated Book Building (ABB) of shares and GDRs.

As of December 31, 2017 the number of GDRs was 1,068,292, equivalent of 160,243,800 ordinary shares, representing 0.283% of the share capital.

Statement of compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

Romanian listed Companies such as OMV Petrom S.A. are required by Ministry of Finance Order no. 1121/2006 to submit the consolidated financial statements prepared in accordance with IFRS as endorsed by EU starting 2007.

The financial year corresponds to the calendar year.

Basis of preparation

Consolidated financial statements of OMV Petrom Group, hereinafter referred to also as “the Group”, are presented in RON (“Romanian Leu”), using going concern principles. All values are presented in millions, rounded to the nearest two decimals. The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments that are measured at fair value. For financial assets and liabilities where fair value differs from carrying amounts at the reporting date, fair values are disclosed in Note 32.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Other disclosures relating to the Group's exposure to risks and uncertainties in relation to capital management and financial risk management and policies are included in Note 35.

Changes in estimates are accounted for prospectively.

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

Estimates and assumptions

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

a) Oil and gas reserves

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

The oil and gas assets are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2017 is shown in Notes 6 and 7.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

b) Decommissioning costs

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

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

Estimates of future restoration costs are based on current contracts concluded with suppliers, reports issued by OMV Petrom Group engineers, as well as past experience. Provisions for restoration costs require estimates of discount rates and inflation rates. These estimates have a material effect on the amount of the provisions (see Note 14).

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

c) Impairment of non-financial assets

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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment testing in Downstream

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

As of 31 December 2017, OMV Petrom performed a full impairment test in relation to the Brazi gas-fired power plant, triggered by revised long-term market and operating assumptions, which resulted in additional recognized impairment losses of RON 75.09 million.

The key valuation assumptions used in determining value in use were the spark spreads (being the differences between the electricity prices and the cost of gas and cost of CO₂ certificates) and the power quantity produced. The pre-tax discount rate used was 6.36%. Recoverable amount was estimated at RON 1,435.44 million, triggering an impairment loss of RON 69.47 million for tangible assets and RON 5.62 million for intangible assets as of December 31, 2017.

Changes in economic conditions may further affect the assumptions used in determining value in use, so that actual results may eventually be different. The sensitivity analysis of value in use to changes in key assumptions shows the following additional impacts:

	RON million
5% decrease in clean spark spread	(203.94)
5% decrease in power quantity produced	(180.17)
Plus 0.5% to discount rate	(66.87)

d) Exploration and evaluation expenditure

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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in income statement in the period when the new information becomes available.

e) Recoverability of State receivable

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

Judgments

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

a) Cash generating units

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

b) Contingencies

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

3. CONSOLIDATION

a) Subsidiaries

The consolidated financial statements comprise the financial statements of OMV Petrom S.A. ("OMV Petrom" / "the Company") and its subsidiaries ("OMV Petrom Group") as at December 31, 2017, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2017, as those of the parent company.

Control exists when OMV Petrom is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when OMV Petrom has less than a majority of the voting or similar rights of an investee, OMV Petrom considers all relevant facts and circumstances in assessing whether it has power over an investee, including: the contractual arrangement with the other vote holders of the investee; rights arising from other contractual arrangements as well as voting rights and potential voting rights. OMV Petrom re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

Consolidation of a subsidiary begins when OMV Petrom obtains control over the subsidiary and ceases when OMV Petrom loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date OMV Petrom gains control until the date OMV Petrom ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of OMV Petrom Group. All intra-group assets and liabilities, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

3. CONSOLIDATION (continued)

The number of consolidated entities is as follows:

	Full consolidation	Equity method
As at January 1, 2017	12	1
Included for the first time	-	-
Deconsolidated during the year	(1)	-
As at December 31, 2017	11	1
Romanian companies	5	1
Foreign companies	6	-

During 2017 the sale of the consolidated subsidiary OMV Petrom Wind Power S.R.L. operating Dorobanțu wind-park was completed. For further details refer to Note 31 c).

Please refer to Note 30 for further details on Group structure.

The Company holds majority of the voting rights in all fully consolidated subsidiaries.

Non-controlling interests are not significant as of December 31, 2017 and December 31, 2016.

b) Associates

An associate is an entity over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee, but has not control or joint control over these policies. This is normally presumed to exist when OMV Petrom has 20% or more of the voting power of the entity. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested for impairment individually. After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to Group's investment in the associate.

The income statement reflects the share of the results of operations of the associate. The share of any change in other comprehensive income (OCI) of the associate is presented as part of the Group's OCI. In addition, where there has been a change recognized directly in the equity of the associate, the Group

3. CONSOLIDATION (continued)

recognizes its share of the changes and discloses it in the statement of changes in equity. The Group recognizes the dividend from an associate when the right to receive a dividend is established, and presents separately (Note 8) the share of the results of operations of the associate corresponding to dividends received.

The aggregate of the Group's share of net profit or loss of an associate is shown on the face of the consolidated income statement under operating result (see Note 4.2).

The financial statements of the associates are prepared for the same reporting period as the Group.

When the Group has transactions with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

c) Interests in joint arrangements

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

Classifying the joint arrangement as joint venture or joint operation requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- ▶ the structure of the joint arrangement – whether it is structured through a separate vehicle;
- ▶ when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - ▶ the legal form of the separate vehicle;
 - ▶ the terms of the contractual arrangement;
 - ▶ other facts and circumstances, considered on a case by case basis.

As of December 31, 2017 and 2016, the Group has joint arrangements classified as joint operations.

Joint operations

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

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

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

3. CONSOLIDATION (continued)

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

The material joint arrangements where OMV Petrom is partner, as well as commitments in relation to the joint arrangements, are presented in Note 34.

4. ACCOUNTING AND VALUATION PRINCIPLES

4.1. First-time adoption of new or revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017, but had no significant effects on the financial statements:

► **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group.

► **IAS 7: Disclosure Initiative (Amendments)**

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The disclosure of changes in liabilities arising from financing activities is presented in Note 31a).

► **The IASB has issued the Annual Improvements to IFRSs 2014-2016 Cycle**, which is a collection of amendments to IFRSs.

IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS. This improvement did not have an effect on the Group's financial statements.

4.2. New structure of the consolidated income statement

The consolidated income statement has been changed in line with industry best practice to comprehensively reflect the operations of the Group and to enhance transparency for the users of the financial statements.

The main changes to the income statement are:

a) **"Net income 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;

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- ▶ In the revised consolidated income statement, 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).

b) 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 “Cost of sales”.
- ▶ Purchases (net of inventory variation): This line item includes the 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.

c) **“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.

d) **“Depreciation, amortization and impairment charges”** are now disclosed as a separate line item

- ▶ Previously, “Depreciation, amortization and impairment charges” were included in “Cost of sales”, “Selling expenses” and “Administrative expenses”.
- ▶ Impairments related to exploration assets remain part of “Exploration expenses”.

For comparative purposes, figures of the prior year have been reclassified according to the new structure.

4.3. New or revised standards and interpretations not yet mandatory

The Group has not early adopted the following new or revised IFRSs and interpretations that have been issued but are not yet effective. EU endorsement is still pending in some cases.

a) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

with Customers from January 1, 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on the consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at January 1, 2018 is based on the assessments undertaken to date and is not considered material. The actual impacts of adopting the standards at January 1, 2018 may still change until the Group presents its financial statements that include the date of initial application.

b) IFRS 9 Financial instruments

In July 2014, the IASB completed its project to replace IAS 39, Financial Instruments: Recognition and Measurement by publishing the final version of IFRS 9 Financial Instruments. IFRS 9 introduces key changes to the classification and measurement of financial assets being based on a business model and contractual cash flows approach and implements a new impairment model based on expected credit losses. In addition, changes to hedge accounting have been made with the objective to better represent the effect of risk management activities that an entity adopts to manage exposures.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

Currently, all trade receivables are measured at amortized cost less any impairment. Upon the application of IFRS 9, however, the portfolio of receivables eligible for factoring or the securitization program will be measured at FVTPL as they are held within a business model with an objective to sell them. Moreover, the trade receivables from arrangements with provisional pricing will also be measured at FVTPL as the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The adjustment to revenue reserves due to the new classification under IFRS 9 is expected to be insignificant.

As a general rule, IFRS 9 requires that equity instruments are measured at fair value through profit or loss. At initial recognition, the Group may make an irrevocable election to present in other comprehensive income (OCI) subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Under IFRS 9, all equity investments will be designated as measured at fair value through OCI. Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The expected impact in Group's equity is expected to be insignificant.

There will be no impact on the Group's classification and measurement of financial liabilities, as the new

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The Group does not have any such liabilities.

The new impairment model requires the recognition of impairment allowances based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. Financial assets measured at amortized cost will be subject to the impairment requirements of IFRS 9. In general, the application of the expected credit loss model will result in earlier recognition of credit losses and increase the amount of loss allowance recognized for the relevant items. Impairment losses are calculated based on a three-stage model using the credit default swap, internal or external counterparty rating and the associated probability of default. For certain financial instruments such as trade receivables, impairment losses are assessed under a simplified approach recognizing lifetime expected credit losses. The related impact in Group's equity upon initial application of IFRS 9 is still being assessed and is not expected to be material

Under IFRS 9, generally more hedging instruments and hedged items will qualify for hedge accounting. As at December 31, 2017 the Group had no hedging relationships for which hedge accounting was applied, therefore the adoption of IFRS 9 has no impact on financial statements in respect of hedge accounting.

c) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers. According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services.

A project has been carried out in order to determine the impact of this new standard on the revenue recognition in OMV Petrom Group. The main project steps were:

- ▶ Identifying and assessing the main revenue streams,
- ▶ Determining key areas of potential differences between old and new revenue recognition principles and
- ▶ Reviewing a sample of contracts for each revenue stream.

The following topics with an impact on the recognition and presentation of the consolidated sales revenues were identified:

- ▶ Additional transactions have been identified in which the Group acts in the capacity of an agent. An agent recognizes revenue for the commission or fee earned for facilitating the transfer of goods

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

or services. Under IFRS 15, the assessment will be based on whether the Group controls the specific goods or services before transferring to the customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the goods or services. Furthermore, under IFRS 15 more transactions have to be considered as non-monetary exchanges between entities in the same line of business which do not qualify for revenue recognition. These changes will lead to a decrease in revenue by approximately 1-2%, without any impact on the operating result.

- ▶ There will be in the future two different categories of sales revenues – those which are within the scope of IFRS 15 and other revenues. Other revenues would include mainly revenues from commodity sales/purchases transactions which are within the scope of IFRS 9 – Financial Instruments.

In addition, the following topics have been assessed in the project:

- ▶ Long-term supply contracts were analyzed with regards to the identification of the performance obligations, determination of the transaction price and the allocation of the transaction price to the performance obligations. In this analysis, a small number of contracts with stepped prices in different periods where the rates do not reflect the value of the goods at the time of delivery were identified. Whereas under IAS 18 the invoiced amount is recognized as revenue, under IFRS 15 the revenue will be recognized based on the average contractual price. The Group does not expect the application of IFRS 15 to result in a significant impact on the accounting for long-term supply contracts.
- ▶ In some customer contracts for the delivery of natural gas, the fees charged to the customer comprise a fixed charge as well as a variable fee depending on the volumes delivered. There was only one performance obligation identified in these contracts which is to stand-ready for the delivery of gas over a certain period. According to IFRS 15, the revenue from the fixed charges and the variable fees will be recognized in line with the amount chargeable to the customer. As a consequence, IFRS 15 will not have any impact on the accounting for these contracts.

The Group will adopt the new standard on January 1, 2018 using the modified retrospective method, with the cumulated adjustment from initially applying this standard recognized at January 1, 2018. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

d) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard IAS 17 and several interpretations and sets out new rules for lease accounting. For the lessee's accounting, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, will introduce a single lessee accounting model. Applying that model, a lessee will be required to recognize assets and liabilities for most leases and depreciation of lease assets separately from interest on lease liabilities in the income statement. For lessors, there will only be minor changes compared to IAS 17.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

The Group has started an assessment of the potential impact of IFRS 16 on its consolidated financial statements and a project for implementation of the new requirements. The application of IFRS 16 will have a significant impact on the consolidated statement of financial position, as the Group will recognize new assets and liabilities for most of its operating leases. In the income statement, depreciation charges and interest expense will be reported instead of lease expense. Some commitments will be covered by the exceptions for short-term and low-value leases. There is no significant impact expected on the existing finance leases.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. OMV Petrom Group plans to apply IFRS 16 initially on January 1, 2019 using the modified retrospective approach for transition.

e) Other new or revised standards and interpretations not yet mandatory

In addition, the following standards, interpretations and amendments were issued which are not expected to have any material effects on the Group's financial statements:

► **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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

► **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Group does not expect the impact of adopting these amendments on the Group's consolidated financial statements to be significant.

► IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Group does not expect the impact of adopting these amendments on the Group's consolidated financial statements to be significant.

► IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the "net investment" in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group does not expect the impact of adopting these amendments on the Group's consolidated financial statements to be significant.

► IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The impact of adopting this interpretation on the Group's consolidated financial statements is not expected to be significant.

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.

► **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

► **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group does not expect the impact of adopting these improvements on the Group's consolidated financial statements to be significant.

► **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the Group's consolidated financial statements, and it does not expect to be significant.

► **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be "negative compensation"), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting this amendment on the Group's consolidated financial statements, and it does not expect to be significant.

► **IFRIC Interpretation 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

circumstances. This Interpretation has not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these annual improvements on the Group's consolidated financial statements, and it does not expect to be significant.

- ▶ The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted over Income Tax Treatments.
- ▶ **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ▶ **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ▶ **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Group is currently assessing the impact of adopting these annual improvements on the Group's consolidated financial statements, and it does not expect to be significant.

4.4. Summary of accounting and valuation principles

a) Business combinations

Business combinations are accounted for using the acquisition method. Assets and liabilities of subsidiaries acquired are included at their fair values at the time of the acquisition.

For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in income statement.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Goodwill is recognized as an asset and reviewed for impairment at least annually. All impairments are immediately charged against income statement, and there are no subsequent reversals of goodwill impairment.

Non-controlling interests entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent's shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

b) Pre-licence costs

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

c) Licence acquisition costs

Exploration licence acquisition costs are capitalized in intangible assets.

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

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

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

d) Exploration and evaluation costs

Exploration and evaluation costs are accounted for using the successful efforts method of

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

e) Development and production costs

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

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

f) Intangible assets and property, plant and equipment

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

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

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

Depreciation and amortization is calculated on a straight-line basis, except for Upstream assets, where depletion occurs to a large extent on a unit-of-production basis. In the consolidated income

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

statement, depreciation and amortization as well as impairment losses for exploration assets are disclosed as exploration expenses, and those for other assets are reported as depreciation, amortization and impairment charges.

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

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

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

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

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

Impairment of intangible assets and property, plant and equipment

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

If any indication exists, or when annual impairment test for an asset is required, the Group estimates the

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

asset's recoverable amount, being the higher of fair value less costs of disposal and its value in use.

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized to reduce the asset to its lower recoverable amount. Impairment losses are recognized in the income statement under depreciation, amortization and impairment charges and under exploration expenses.

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

g) Major maintenance and repairs

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

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

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

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

h) Leases

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

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

Non-current assets held under finance lease arrangements are capitalized at the commencement of

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

i) Financial instruments

Non-derivative financial assets

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

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

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

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

After initial measurement, available-for-sale financial assets are recognized at fair value. Unrealized

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

Investments in non-consolidated subsidiaries and other companies, whose fair value cannot be reliably estimated, are measured at acquisition cost less any impairment losses.

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

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

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

Non-derivative financial liabilities

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

After initial measurement, liabilities are carried at amortized cost, with the exception of derivative financial instruments, which are recognized at fair value. Long-term liabilities are discounted using the

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

effective interest rate method (EIR). Gains and losses are recognized in income statement when the liabilities are derecognized, as well as through the EIR amortization process.

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

Derivative financial instruments

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

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

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

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

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

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, are accounted for as financial instruments. However, contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are not accounted for as derivative financial instruments, but

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

rather as executory contracts. However, even though such contracts are not financial instruments, they may contain embedded derivatives. Embedded derivatives are accounted for separately from the host contract when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract.

j) Borrowing costs

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

k) Government grants

Government grants – except for emission rights (see Note 4m) – are recognized as deferred income or deducted from the related asset where it is reasonable to expect that the granting conditions will be met and that the grants will be received.

l) Inventories

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

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

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

m) Provisions

Provisions are made for all present obligations (legal or constructive) to third parties resulting from

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

The Group's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation obligations, more specifically consisting in:

- ▶ plugging and abandoning wells;
- ▶ cleaning of sludge pits;
- ▶ dismantlement of production facilities;
- ▶ restoration of producing areas in accordance with licence requirements and the relevant legislation.

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

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

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

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

The unwinding of the decommissioning provision is presented as part of the interest expenses in the

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

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

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

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

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

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

Emission allowances received free of cost from governmental authorities (EU Emissions Trading Scheme for greenhouse gas emissions allowances) reduce obligations for CO₂ emissions and are recognized based on net approach for Government Grant (i.e. zero value in accounting). Provisions are recognized only for shortfalls. The provision for a shortfall is initially measured at the best estimation of expenditure required to settle the obligation, which is the market price of the emission rights at the closing date. The related expense is recognized as emission costs, included in production and operating expenses. If, subsequently to the recognition of a provision, emission rights are purchased, then an asset is only recognized for the excess of the emission rights over the CO₂ emissions. Any price difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

n) Taxes on income and royalties

Current tax

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

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

Deferred tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

Production taxes

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

o) Revenue recognition

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

Sale of goods

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

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

Dividend revenue and interest income

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

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

p) Cash and cash equivalents

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

5. FOREIGN CURRENCY TRANSLATION

a) Group companies

The consolidated financial statements are presented in RON, which is OMV Petrom S.A. functional currency and the Group's presentation currency. Each entity in OMV Petrom Group determines its own functional currency, and items included in its individual financial statements are measured using that functional currency. The functional currency of the foreign operations is generally their local currency (which for the majority of the Group's operations is the RON), except for Kazakhstan entities that have USD as functional currency.

Where the functional currency differs from the Group's presentation currency, individual financial statements are translated using the closing rate method. Differences arising between the statement of financial position items translated at closing and historical rates are presented as a separate item directly in equity and in other comprehensive income. The use of average rates for translation of income statement creates additional differences compared to the application of the closing rates in the statement of financial position which are also recorded in equity and in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income and equity relating to the translation of that particular foreign operation is recognized in the consolidated income statement.

The rates applied in translating foreign currencies to RON were as follows:

Exchange rates	Year ended December 31, 2017*	Average for the year ended December 31, 2017	Year ended December 31, 2016*	Average for the year ended December 31, 2016
US dollar (USD)	3.8915	4.0511	4.3033	4.0569
Euro (EUR)	4.6597	4.5681	4.5411	4.4900
Moldavian Leu (MDL)	0.2283	0.2193	0.2174	0.2036
Serbian Dinar (RSD)	0.0394	0.0377	0.0368	0.0365
Bulgarian Leva (BGN)	2.3825	2.3357	2.3218	2.2957

*) as communicated by National Bank of Romania

b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

6. INTANGIBLE ASSETS

	Concessions, licences and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2017	1,342.29	2,647.22	3,989.51
Exchange differences	2.13	-	2.13
Additions*)	(2.02)	278.55	276.53
Transfers to tangible assets (Note 7)	4.24	(9.09)	(4.85)
Disposals	(1.06)	(55.46)	(56.52)
Balance as at December 31, 2017	1,345.58	2,861.22	4,206.80
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2017	1,232.08	221.56	1,453.64
Exchange differences	1.39	-	1.39
Amortization	7.26	-	7.26
Impairment	5.62	184.86	190.48
Disposals	(1.05)	(55.44)	(56.49)
Write-ups	(0.61)	-	(0.61)
Balance as at December 31, 2017	1,244.69	350.98	1,595.67
CARRYING AMOUNT			
As at January 1, 2017	110.21	2,425.66	2,535.87
As at December 31, 2017	100.89	2,510.24	2,611.13

*) Include the amount of RON 0.42 million representing increase from the reassessment of decommissioning asset for exploration wells (under category "Oil and gas assets with unproved reserves"), and were reduced by the amount of RON 5.68 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9), reflected under category "Concessions, licenses and other intangible assets".

7. PROPERTY, PLANT AND EQUIPMENT

	Land, land rights and buildings, incl. buildings on third-party property	Oil and gas assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
COST						
Balance as at January 1, 2017	4,562.39	39,518.38	9,879.16	1,183.78	594.99	55,738.70
Exchange differences	43.57	(367.54)	(11.60)	0.41	(0.60)	(335.76)
Additions**)	39.71	2,085.07	41.18	16.07	428.35	2,610.38
Transfers*)	53.65	(38.20)	320.99	(9.01)	(322.58)	4.85
Transfers to assets held for sale	(0.06)	(7.12)	(5.81)	(0.19)	-	(13.18)
Disposals***)	(34.15)	(784.60)	(81.57)	(26.98)	(2.18)	(929.48)
Balance as at December 31, 2017	4,665.11	40,405.99	10,142.35	1,164.08	697.98	57,075.51
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at January 1, 2017	1,830.87	19,526.62	5,140.26	863.50	51.90	27,413.15
Exchange differences	19.86	(326.47)	(12.21)	(0.04)	0.21	(318.65)
Depreciation	183.69	1,977.89	682.81	69.46	-	2,913.85
Impairment	2.67	337.82	117.10	2.54	6.22	466.35
Transfers*)	5.91	(0.36)	15.93	(21.48)	-	-
Transfers to assets held for sale	(0.93)	(4.15)	(4.01)	(0.42)	-	(9.51)
Disposals	(25.52)	(393.36)	(81.38)	(26.73)	(2.09)	(529.08)
Write-ups	(0.02)	(3.21)	(0.87)	-	-	(4.10)
Balance as at December 31, 2017	2,016.53	21,114.78	5,857.63	886.83	56.24	29,932.01
CARRYING AMOUNT						
As at January 1, 2017	2,731.52	19,991.76	4,738.90	320.28	543.09	28,325.55
As at December 31, 2017	2,648.58	19,291.21	4,284.72	277.25	641.74	27,143.50

*) Net amount represents transfers from intangibles (Note 6).

**) Include the amount of RON 25.96 million representing additions through finance lease, mainly for equipment used for production of electricity, and were reduced by the amount of RON 75.33 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9), reflected under the categories "Land, land rights and buildings, incl. buildings on third-party property" (RON 0.94 million), "Plant and machinery" (RON 74.02 million), and "Other fixtures and fittings, tools and equipment" (RON 0.37 million).

***) Include the amount of RON 364.58 million representing decrease from reassessment of the decommissioning asset.

Property, plant and equipment include fixed assets acquired through finance lease with a net carrying amount of RON 220.70 million as at December 31, 2017 (2016: RON 234.66 million).

Expenditure capitalized in the course of construction of tangible and intangible assets is RON 450.00 million (2016: RON 453.30 million).

For details on impairments see Note 22.

8. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2017 and December 31, 2016 OMV Petrom Group had one associated company: OMV Petrom Global Solutions S.R.L. with a shareholding of 25% and principal place of business in Romania.

The associate is not material to the Group. The table below summarizes financial information for the Group's interest in associate (aggregated):

	2017	2016
Carrying amount of interests in individually immaterial associates	49.62	43.69
Group's share of:		
- profit from continuing operations (Note 20)	8.36	6.93
- other comprehensive income	(0.21)	0.02
- dividends during the year	(2.22)	(3.95)
Total comprehensive income	5.93	3.00

Carrying amount reconciliation for immaterial associates is as follows:

	Associated companies
Balance as at January 1, 2017	43.69
Additions	-
Share of total comprehensive income of associates (see above)	5.93
Disposals	-
Balance as at December 31, 2017	49.62

There are no significant unrecognized commitments in relation with associates.

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

a) Trade receivables are amounting to RON 1,513.03 million as at December 2017 (2016: RON 1,540.04 million). They are presented net of impairment allowances, which are detailed in 9c) below.

b) Other financial assets (net of allowances)

	Liquidity term		
	December 31, 2017	less than 1 year	over 1 year
Expenditure recoverable from Romanian State	2,020.83	-	2,020.83
Derivatives financial assets	7.86	7.86	-
Investments	1.84	-	1.84
Other financial assets	530.58	236.10	294.48
Total	2,561.11	243.96	2,317.15

	Liquidity term		
	December 31, 2016	less than 1 year	over 1 year
Expenditure recoverable from Romanian State	2,458.51	-	2,458.51
Derivatives financial assets	0.05	0.05	-
Investments	2.58	-	2.58
Other financial assets	342.86	211.02	131.84
Total	2,804.00	211.07	2,592.93

Expenditure recoverable from Romanian State

As part of the privatization agreement, OMV Petrom S.A. is entitled to reimbursement by the Romanian State of part of decommissioning and environmental costs incurred to restore and clean up areas pertaining to activities prior to privatization in 2004. Consequently, OMV Petrom S.A. has recorded as receivable from the Romanian State the estimated decommissioning obligations having a net present value of RON 1,815.35 million as at December 31, 2017 (2016: RON 2,130.40 million) and the environmental liabilities in Downstream Oil and Upstream with net present value of RON 205.48 million (2016: RON 328.11 million), as these were existing prior to privatization of OMV Petrom S.A.

In April 2016, OMV AG submitted to the Romanian State a notice of dispute regarding certain notices of claims unpaid by the Romanian State in relation to well decommissioning and environmental restoration obligations amounting to RON 153.32 million. On 7 March 2017, OMV AG, as party in the privatization agreement, initiated arbitration proceedings against the Romanian State, in accordance with the International Chamber of Commerce Rules, in Paris, France. In September 2017, OMV AG submitted to the Romanian State an additional notice of dispute regarding certain notices of claims unpaid by the Romanian State in relation to well decommissioning and environmental restoration obligations amounting to RON 134.34 million. On 6 October 2017, an additional request to supplement the current arbitration

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

with these notices of claims amounting to RON 134.34 million was submitted to International Chamber of Commerce, in Paris, France.

Investments

The position "Investments" comprises all the investments in companies that were not consolidated, as the Group neither has control nor significant influence over their operations, or they were considered immaterial for the Group. These financial assets are accounted for at amortized cost.

Other financial assets

On 14 September 2016, OMV Petrom signed a financing contract with the Romanian Ministry of Energy for the first tranches of the government grant to be received for Brazi power plant investment, recorded as other financial assets against reduction of cost of fixed assets. On 29 September 2017, OMV Petrom signed an addendum to the financing contract for an increase of the second tranche of the government grant to be received for Brazi power plant investment with the amount of RON 81.01 million recorded as other financial assets against reduction of cost of fixed assets (Notes 6 and 7). As of December 31, 2017 the present value of the financial asset representing government grant to be received for Brazi power plant investment was in amount of RON 262.71 million (2016: RON 198.80 million).

As of December 31, 2017, OMV Petrom also has in balance a financial asset recognized in relation to insurance indemnities in Power business division in amount of RON 97.61 million (2016: nil).

c) Valuation allowances

The movements in valuation allowances for investments were as follows:

	Year 2017
January 1	13.03
Additions/ (releases)	-
Disposals	(7.82)
December 31	5.21

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

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

	Valuation allowance for:		
	Trade receivables	Other financial assets	Total
January 1, 2017	245.40	823.63	1,069.03
Additions/ (releases)	7.96	61.18	69.14
Used	(2.54)	-	(2.54)
Exchange differences	0.81	0.03	0.84
December 31, 2017	251.63	884.84	1,136.47

The gross value of impaired trade receivables as at December 31, 2017 is of RON 256.70 million (2016: RON 252.98 million) and the gross value of impaired other financial assets amounts to RON 1,024.17 million (2016: RON 967.89 million).

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

Trade receivables	December 31, 2017	December 31, 2016
Up to 60 days overdue	162.00	113.51
61 to 120 days overdue	1.84	3.86
More than 120 days overdue	2.97	4.58
Total	166.81	121.95

Other financial assets	December 31, 2017	December 31, 2016
Up to 60 days overdue	0.74	0.71
61 to 120 days overdue	113.54	-
More than 120 days overdue	3.11	3.73
Total	117.39	4.44

10. OTHER ASSETS

The carrying value of other assets was as follows:

	Liquidity term		
	December 31, 2017	less than 1 year	over 1 year
Receivable from taxes	220.20	169.40	50.80
Advance payments on fixed assets	107.65	107.65	-
Prepaid expenses and deferred charges	51.77	44.35	7.42
Rental and lease prepayments	29.16	27.44	1.72
Other assets	158.99	158.99	-
Total	567.77	507.83	59.94

	Liquidity term		
	December 31, 2016	less than 1 year	over 1 year
Receivable from taxes	164.73	99.92	64.81
Advance payments on fixed assets	28.48	28.48	-
Prepaid expenses and deferred charges	69.66	57.61	12.05
Rental and lease prepayments	30.12	28.33	1.79
Other assets	100.77	100.54	0.23
Total	393.76	314.88	78.88

11. INVENTORIES

	December 31, 2017	December 31, 2016
Crude oil	331.49	361.24
Natural gas	86.63	111.61
Other materials	225.14	237.8
Work in progress	103.63	132.03
Finished products	1,335.91	1,107.33
Total	2,082.80	1,950.01

The cost of materials and goods consumed during 2017 (whether used in production or re-sold) is of RON 7,088.83 million (2016: RON 5,651.01 million).

As at December 31, 2017 and 2016 there are no inventories pledged as security for liabilities.

12. ASSETS HELD FOR SALE

	December 31, 2017	December 31, 2016
Land and buildings	5.43	32.40
Plant and equipment	-	221.39
Intangible assets	-	13.73
Other assets	-	1.88
Deferred tax asset (Note 18)	-	3.52
Assets held for sale	5.43	272.92
Provisions	-	(133.10)
Liabilities	-	(2.72)
Liabilities associated with assets held for sale	-	(135.82)

As at December 31, 2016, most of the assets and liabilities held for sale referred to:

- ▶ Downstream Gas segment in relation to the envisaged sale of the entire stake in the subsidiary OMV Petrom Wind Power S.R.L. operating the Dorobanțu wind-park.
- ▶ Upstream segment in relation to 19 marginal onshore fields reclassified as assets and liabilities held for sale following the signing of a transfer agreement by OMV Petrom S.A. with Mazarine Energy Romania S.R.L. in October 2016.

On 1 August 2017 the transaction for the transfer of 19 marginal onshore fields to Mazarine Energy Romania S.R.L. was finalized, as detailed in Note 31 d).

On 28 December 2017 the sale of the subsidiary OMV Petrom Wind Power S.R.L. operating the Dorobanțu wind-park was completed, as detailed in Note 31 c).

13. STOCKHOLDERS' EQUITY

Share capital

The share capital of OMV Petrom S.A. consists of 56,644,108,335 fully paid shares as at December 31, 2017 and December 31, 2016 with a total nominal value of RON 5,664.41 million.

Revenue reserves

Revenue reserves include retained earnings, as well as other non-distributable reserves (legal and geological quota facility reserves, other reserves from fiscal facilities).

Geological quota included in revenue reserves is amounting to RON 5,062.84 million as at December 31, 2017 and 2016. Until December 31, 2006, OMV Petrom S.A. benefited from geological quota facility whereby it could charge up to 35% of the market value of the volume of oil and gas extracted during the year. This facility was recognized directly in reserves. This quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

Legal reserves included in revenue reserves are amounting to RON 1,132.88 million as at December 31, 2017 and 2016. OMV Petrom S.A. sets its legal reserve in accordance with the provisions of the Romanian Companies Law, which requires that minimum 5% of the annual accounting profit before tax is transferred to "legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company.

Other reserves from fiscal facilities are amounting to RON 387.07 million (2016: RON 314.98 million). The amount of RON 72.09 million was allocated to other reserves, representing fiscal facilities from reinvested profit in the year 2017 (2016: RON 66.69 million).

At the Annual General Meeting of Shareholders held on April 25, 2017, the shareholders of OMV Petrom S.A. approved the distribution of gross dividends in amount of RON 0.015 per share.

On March 19, 2018, the Supervisory Board endorsed the management's proposal to distribute gross dividends of RON 0.020 per share. The dividend proposal is subject to further approval by the Ordinary General Meeting of Shareholders, on April 26, 2018.

Other reserves

Other reserves contain mainly reserves from business combinations in stages, land for which land ownership certificates were obtained but was not yet included in share capital and exchange differences on loans considered net investment in a foreign operation.

Cash flow hedging reserves

In order to protect the Company's cash flows against further potential downturns of the crude oil price, OMV Petrom entered, in April 2015, into hedging arrangements (Zero Cost Collar options) for a volume

13. STOCKHOLDERS' EQUITY (continued)

of 15,000 bbl/d of crude oil, with a protection floor level of USD 55/bbl, for the third quarter of 2015 to the second quarter of 2016 period. These financial instruments were accounted as cash flow hedge.

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

14. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2017	224.55	8,271.45	1,002.12	9,498.12
thereof short-term	-	347.99	381.28	729.27
thereof long-term	224.55	7,923.46	620.84	8,768.85
Exchange differences	-	(13.48)	(3.88)	(17.36)
Liabilities associated with assets held for sale	-	(2.42)	-	(2.42)
Used	(10.09)	(175.42)	(146.16)	(331.67)
Allocations/(releases)	10.38	(378.32)	(100.51)	(468.45)
December 31, 2017	224.84	7,701.81	751.57	8,678.22
thereof short-term	-	427.00	477.33	904.33
thereof long-term	224.84	7,274.81	274.24	7,773.89

Provisions for pensions and similar obligations

Employees of several Group companies are entitled to receive severance payments upon termination of employment or on reaching normal retirement age. The entitlements depend on years of service and final compensation levels. Provisions have been set up based on actuarial calculations performed by qualified actuaries using the following parameters: a discount rate of 4.10% (2016: 3.23%) and an estimated average yearly salary increase of 3.15% (2016: 3.30%).

Provisions for decommissioning and restoration

Changes in provisions for decommissioning and restoration are shown in the table below. In the event of subsequent changes in estimated restoration costs only the effect of the change in present value is recognized in the period concerned. If the value increases, the increase is depreciated over the remaining useful life of the asset, and if it decreases, the decrease is deducted from capitalized asset value. Net discount rates applied for calculating the decommissioning and restoration costs are between 0.00% and 2.25% (2016: between 0.00% and 1.97%).

The provision for decommissioning and restoration costs includes mainly obligations in respect of OMV Petrom S.A. amounting to RON 7,555.77 million (2016: RON 8,112.84 million). There is a corresponding receivable from the Romanian State, which is disclosed under "Other financial assets" (Note 9b).

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

14. PROVISIONS (continued)

Details on the Decommissioning and restoration obligations are as follows:

	2017	2016
January 1, 2017	8,271.45	8,304.78
Exchange differences	(13.48)	5.19
Revisions in estimates	(654.65)	30.87
Unwinding effect	276.33	293.46
Used in current year	(175.42)	(237.18)
Transfer to liabilities associated with assets held for sale	(2.42)	(125.67)
December 31, 2017	7,701.81	8,271.45

The revisions in estimates impact either the assets subject to decommissioning or the related receivable from State. The unwinding effect is included in the income statement under the interest expenses line (Note 23) net of the unwinding effect on the related receivable from State. The effect of changes in net discount rate or timing of the receivable from State (which are additional to the changes in net discount rate or timing of the decommissioning costs) is included in the income statement under interest expenses or interest income.

Impact from revision in estimates in 2017 was generated mainly by the increase of net discount rates.

Other provisions were as follows:

December 31, 2017	Total	less than 1 year	over 1 year
Environmental provision	276.86	133.80	143.06
Other personnel provisions	91.88	86.40	5.48
Provisions for litigations	138.88	13.41	125.47
Other	243.95	243.72	0.23
Total	751.57	477.33	274.24

December 31, 2016	Total	less than 1 year	over 1 year
Environmental provision	376.99	64.66	312.33
Other personnel provisions	178.21	175.80	2.41
Provisions for litigations	319.07	13.43	305.64
Other	127.85	127.39	0.46
Total	1,002.12	381.28	620.84

14. PROVISIONS (continued)

Environmental provisions

The environmental provisions were estimated by the management based on the list of environment related projects that must be completed by OMV Petrom Group. Provisions recorded as at December 31, 2017 and 2016 represent the best estimate of the Group's experts for environmental matters. Environmental provisions are computed using the same net discount rates as for the decommissioning and restoration provisions.

OMV Petrom S.A. recorded certain environmental liabilities against receivable from the Romanian State in Downstream Oil and Upstream, as these obligations existed prior to privatization (Note 9b).

The decrease of the balance as of December 31, 2017 is mainly triggered by lower estimated decontamination costs for land plots pertaining to certain former storage facilities in Downstream Oil.

Other personnel provisions

The decrease in other personnel provisions is mainly related to the use of restructuring provision in balance as of December 31, 2016.

Provisions for litigations

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

The decrease of balance as of December 31, 2017 is mainly in connection with partial reversal of provisions related to litigations with employees in OMV Petrom SA, following the outcome of court decisions in 2017.

Emissions certificates

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

The only company from the Group included in this scheme is OMV Petrom S.A. Under this scheme OMV Petrom S.A. is entitled to an allocation of 1,699,556 emission certificates for the year 2017 (2016: 2,277,940 emission certificates). During 2017 the Company received 2,029,769 emission certificates, out of which 1,320,850 emission certificates representing the 2016 entitlement according to article 10c) of the Directive and 708,919 emission certificates from 2017 entitlement according to article 10a) of the Directive.

During 2017 the Company had other purchases of 144,063 emissions certificates (2016: net sales of 1,480,706 emissions certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2017, the Company was not short of certificates.

15. INTEREST-BEARING DEBTS

As at December 31, 2017 and December 31, 2016 OMV Petrom Group had the following loans:

Borrower	Lender	December 31, 2017	December 31, 2016
Interest-bearing debts short-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	98.79	96.27
OMV Petrom S.A.	European Investment Bank (b)	88.76	86.50
OMV Petrom S.A.	OMV Petrom Global Solutions S.R.L. (c)	137.70	95.21
Kom Munai LLP.	European Bank for Reconstruction and Development (a)	-	127.31
	Accrued interest	4.83	7.17
	Prepayments in relation with loan amounts drawn	(1.46)	(2.84)
Total interest bearing debts short-term		328.62	409.62

Borrower	Lender	December 31, 2017	December 31, 2016
Interest-bearing debts long-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	191.05	282.46
OMV Petrom S.A.	European Investment Bank (b)	370.56	447.62
Kom Munai LLP.	European Bank for Reconstruction and Development (d)	-	420.11
	Prepayments in relation with loan amounts drawn	(2.93)	(9.49)
Total interest-bearing debts long-term		558.68	1,140.70
thereof maturing after more than 1 year but not later than 5 years		543.15	1,014.15
thereof maturing after 5 years		15.53	126.55
Total interest-bearing debts		887.30	1,550.32

(a) For the construction of Brazi Power Plant, OMV Petrom S.A. concluded an unsecured corporate loan agreement with European Bank for Reconstruction and Development for a maximum amount of EUR 200.00 million. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The outstanding amount as at December 31, 2017 was RON 289.84 million (equivalent of EUR 62.20 million) (2016: RON 378.73 million, equivalent of EUR 83.40 million).

(b) For the construction of the Brazi Power Plant, OMV Petrom S.A. also concluded an unsecured loan agreement for an amount of EUR 200.00 million with European Investment Bank. The agreement was signed on May 8, 2009 and the final maturity date is June 15, 2023. The outstanding amount as at December 31, 2017 was RON 459.32 million (equivalent of EUR 98.57 million) (2016: RON 534.12 million, equivalent of EUR 117.62 million).

(c) A cash pooling agreement with maturity on April 21, 2018, renewable each year, was signed between

15. INTEREST-BEARING DEBTS (continued)

OMV Petrom S.A. and OMV Petrom Global Solutions S.R.L. on April 25, 2014. The aggregated amount of the loan is RON 180.00 million (2016: RON 180.00 million), usable in RON or any other currency EUR, USD and GBP. Amount drawn by the Group as at December 31, 2017 was RON 137.70 million (2016: RON 95.21 million).

- (d) On September 25, 2014 an unsecured loan agreement was concluded between European Bank for Reconstruction and Development and Kom-Munai LLP with a limit of USD 200.00 million and the final maturity date May 20, 2022. On December 18, 2015 the limit was decreased to USD 142.00 million, consisting of:
- ▶ tranche 1 with a maximum limit of USD 120.00 million, to be used for refinancing of intra-group loans;
 - ▶ tranche 2 with a maximum limit of USD 22.00 million, to be used for future capital expenditures.

The outstanding amount as at December 31, 2017 was nil, as the loan was fully reimbursed in 2017 (2016: RON 547.42 million, equivalent of USD 127.21 million).

The OMV Petrom Group's companies have several credit facilities signed as at December 31, 2017 as follows:

- (e) An unsecured credit facility granted by Raiffeisen Bank S.A. up to EUR 55.00 million consisting in two subfacilities: subfacility A with maturity date prolonged to December 31, 2018 (for an amount of EUR 35.00 million) and subfacility B with maturity date prolonged to December 31, 2021 (for an amount of EUR 20.00 million). Subfacility A can be used only in RON and only by OMV Petrom S.A. as overdraft credit line. Subfacility B can be used in EUR, USD or RON by OMV Petrom S.A., OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. (up to the limit of EUR 20.00 million); and by OMV Petrom Aviation S.A (up to the maximum limit of EUR 10.00 million) only for the issuance of letters of credit and/or issuance of letters of bank guarantee. The cash portion of the credit facility was not used as at December 31, 2017 and 2016.
- (f) An unsecured Banks Consortium revolving facility amounting to EUR 1,000.00 million was contracted by OMV Petrom SA on May 20, 2015 with 5 years maturity and with the possibility of extension for another 2 years. Second maturity extension was done in March 2017, the current maturity being May 20, 2022. The Banks Consortium includes BRD - Groupe Société Générale S.A.; UniCredit Bank Austria AG; UniCredit Tirioc Bank S.A. (Romania); ING Bank N.V. Amsterdam, Bucharest Branch; Erste Group Bank AG; Banca Comerciala Romana S.A.; Intesa Sanpaolo S.p.A., Frankfurt Branch; Banca Comerciala Intesa Sanpaolo Romania S.A.; Mizuho Bank Europe N.V. (formerly known as Mizuho Bank Nederland N.V. and Mizuho Corporate Bank Nederland N.V.); Raiffeisen Bank International AG; Raiffeisen Bank S.A.; BNP Paribas SA Paris - Bucharest Branch (transfer from BNP Paribas Fortis S.A./N.V. Bruxelles - Bucharest Branch); Commerzbank Aktiengesellschaft, Filiale Luxemburg; MUFG Bank (Europe) N.V. (formerly known as Bank of Tokyo - Mitsubishi UFJ (Holland)

15. INTEREST-BEARING DEBTS (continued)

N.V.); Citibank Europe Plc; Citibank Europe Plc, Dublin-Romania Branch; Deutsche Bank Luxembourg S.A.; CA Indosuez Wealth (Europe) (former Crédit Agricole Luxembourg S.A.); Barclays Bank Plc; Garanti Bank S.A.; OTP Bank Romania S.A.; KDB Bank Europe Ltd. There are no drawings from this facility as at December 31, 2017 and 2016.

- (g) An unsecured facility contracted by OMV Petrom S.A. from ING Bank N.V., that can be used in USD, RON or EUR, up to the maximum amount of EUR 50.00 million (equivalent of RON 232.99 million), for issuance of letters of bank guarantee and as overdraft for working capital financing. The maturity of the credit facility was prolonged until November 20, 2022. No drawings under the overdraft were made as at December 31, 2017 and 2016.
- (h) An uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. with maximum limit of EUR 90.00 million (equivalent of RON 419.37 million) that can be used in RON, with maturity date prolonged until April 30, 2018. The facility is designated to finance OMV Petrom's current activity and for issuance of bank guarantees, opening letters of credit and similar. No drawings under the facility were made as at December 31, 2017 and 2016.
- (i) A committed and unsecured credit facility contracted by OMV Petrom S.A. from Banca Comerciala Romana S.A., that can be used in USD, EUR or RON, up to a maximum amount of EUR 200.00 million (equivalent of RON 931.94 million), for issuance of letters of bank guarantee and similar and as overdraft for working capital financing. The maturity for letters of bank guarantee and similar is January 13, 2020 and for overdraft the maturity is January 11, 2019. No drawings for overdraft purposes were made as at December 31, 2017 and 2016.
- (j) An unsecured revolving facility contracted by OMV Serbija from Raiffeisen Banka a.d. Belgrad, with a maximum limit of EUR 4.00 million (equivalent of RON 18.64 million) and maturity until March 02, 2018. The facility was not prolonged. The destination of the facility is for general corporate purposes. No drawings were made under the revolving facility as at December 31, 2017 and 2016.
- (k) An unsecured facility contracted by OMV Serbija from Raiffeisen Banka a.d. Belgrad, with a maximum limit of RSD 600.00 million (equivalent of RON 23.64 million) and maturity date until March 30, 2018. The destination of the facility is for general corporate purposes financing. No drawings were made under the overdraft facility as at December 31, 2017 and 2016.
- (l) A credit facility contracted on October 02, 2014 by Tasbulat Oil Corporation LLP and Kom-Munai LLP as Borrowers from JSK Citibank Kazakhstan, accessible to both companies up to the maximum limit of USD 15.00 million (equivalent of RON 58.37 million) and maturity date prolonged to July 31, 2018 with further extension possibility for successive periods of 12 (twelve) months, but for no more than a total 5 (five) years from the date of the agreement i.e. until October 02, 2019. The purpose of the facility is for general corporate needs, working capital financing, letters of credit and letters of bank guarantee. The credit facility was not used as at December 31, 2017 and 2016.

15. INTEREST-BEARING DEBTS (continued)

(m) An unsecured facility contracted by OMV Bulgaria OOD from Raiffeisenbank Bulgaria EAD, with a maximum limit of BGN 13.23 million (equivalent of RON 31.51 million) and maturity date January 30, 2020 and adjusted up to a maximum limit of BGN 9.97 million. The destination of the facility is financing current operational activities and issuance of letters of bank guarantee. There were no drawings under the overdraft facility as at December 31, 2017 and 2016.

OMV Petrom Group's companies have signed also facilities with several banks for issuing letters of bank guarantee and letters of credit, as follows:

(n) An unsecured facility agreement was signed by OMV Petrom S.A. with BNP Paribas Fortis Bank S.A./N.V. – Bucharest branch – for up to EUR 30.00 million (equivalent of RON 139.79 million), to be utilized only for issuance of letters of bank guarantee and letters of credit, with maturity date prolonged to March 27, 2019.

(o) An unsecured credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 116.49 million), to be utilized only for issuance of letters of bank guarantee, with maturity extended until March 31, 2020.

(p) A frame facility contracted by OMV Srbija from Raiffeisen Banka a.d. Belgrad, with a maximum limit of EUR 2.00 million (equivalent of RON 9.32 million) and maturity date until March 31, 2020. The destination of the facility is the issuance of letters of bank guarantee and letters of credit.

As at December 31, 2017, OMV Petrom Group is in compliance with all financial covenants stipulated by the loan agreements.

Please refer also to Note 35 for details regarding interest rate risks of interest-bearing debt.

16. OTHER FINANCIAL LIABILITIES

	December 31, 2017	less than 1 year	over 1 year
Finance lease liabilities	194.60	42.24	152.36
Financial liabilities in connection with joint operations	38.18	38.18	-
Derivatives financial liabilities	56.96	56.96	-
Other financial liabilities	242.02	233.87	8.15
Total	531.76	371.25	160.51
	December 31, 2016	less than 1 year	over 1 year
Finance lease liabilities	209.09	45.51	163.58
Financial liabilities in connection with joint operations	3.27	3.27	-
Derivatives financial liabilities	9.41	9.41	-
Other financial liabilities	175.77	162.10	13.67
Total	397.54	220.29	177.25

Finance lease liabilities

As of December 31, 2017, OMV Petrom Group had finance leases mainly in relation with equipment for production of electricity (Upstream segment) and a hydrogen and medium pressure steam production plant for Petrobrazil Refinery in OMV Petrom (Downstream Oil segment).

For the hydrogen and medium pressure steam production plant (acquired in 2013) the lease period is 15 years and the total future minimum lease payments amounts to RON 138.45 million (2016: RON 146.97 million).

16. OTHER FINANCIAL LIABILITIES (continued)

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

	December 31, 2017	December 31, 2016
Obligations under finance leases		
Amounts due within 1 year	49.68	54.09
Amounts due after more than 1 year but not later than 5 years	92.56	97.40
Amounts due after 5 years	114.75	128.41
Total lease obligations	256.99	279.90
Less future finance charges on finance leases	(62.39)	(70.81)
Present value of finance lease liabilities	194.60	209.09
Analyzed as follows:		
Maturing within 1 year	42.24	45.51
Maturing after more than 1 year but not later than 5 years	71.36	74.19
Maturing after 5 years	81.00	89.39

Maturity profile of financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows (i.e. also including future finance charges):

	< 1 year	1-5 years	> 5 years	Total
December 31, 2017				
Interest-bearing debts	338.58	563.51	15.63	917.72
Trade payables	2,805.44	-	-	2,805.44
Other financial liabilities	378.69	100.67	114.79	594.15
Total	3,522.71	664.18	130.42	4,317.31
December 31, 2016	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	441.69	1,104.51	102.98	1,649.18
Trade payables	2,289.75	-	-	2,289.75
Other financial liabilities	228.86	108.20	131.28	468.34
Total	2,960.30	1,212.71	234.26	4,407.27

17. OTHER LIABILITIES

	December 31, 2017	less than 1 year	over 1 year
Tax liabilities	381.94	381.94	-
Deferred income	130.09	114.01	16.08
Social security	69.91	69.91	-
Other liabilities	72.40	72.40	-
Total	654.34	638.26	16.08
	December 31, 2016	less than 1 year	over 1 year
Tax liabilities	460.94	460.94	-
Deferred income	109.74	109.74	-
Social security	44.72	44.72	-
Other liabilities	90.40	90.40	-
Total	705.80	705.80	-

18. DEFERRED TAX

December 31, 2017	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	364.94	(20.24)	344.70	18.91
Financial assets	59.29	-	59.29	6.14
Inventories	27.18	(0.21)	26.97	0.04
Receivables and other assets	115.03	(41.73)	73.30	-
Provisions for pensions and severance payments	42.51	-	42.51	6.55
Other provisions	1,017.82	(18.62)	999.20	-
Liabilities	20.59	(2.37)	18.22	-
Tax loss carried forward	12.80	-	12.80	-
Total	1,660.16	(83.17)	1,576.99	31.64
Netting (same tax jurisdiction/country)			(31.64)	(31.64)
Total deferred tax, net			1,545.35	-
Deferred tax for assets and related liabilities held for sale (Note 12)		-		-

December 31, 2016	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	291.56	(44.96)	246.60	20.21
Financial assets	105.89	-	105.89	6.54
Inventories	31.33	(0.20)	31.13	-
Receivables and other assets	79.51	(41.89)	37.62	-
Untaxed reserves	-	-	-	1.25
Provisions for pensions and severance payments	40.75	-	40.75	4.82
Other provisions	1,115.31	(19.44)	1,095.87	-
Liabilities	14.18	(2.10)	12.08	-
Tax loss carried forward	15.15	-	15.15	-
Total	1,693.68	(108.59)	1,585.09	32.82
Netting (same tax jurisdiction/country)			(32.82)	(32.82)
Total deferred tax, net			1,552.27	-
Deferred tax for assets and related liabilities held for sale (Note 12)	3.52	-	3.52	-

18. DEFERRED TAX (continued)

As at December 31, 2017, losses carry-forward for tax purposes amounted to RON 225.94 million (2016: RON 334.69 million). Eligibility of losses for carry-forward expires as follows:

	2017	2016
2017	-	4.66
2018	-	2.07
2019	20.01	66.17
2020	19.52	21.52
2021	-	6.09
2022 / After 2021	12.64	234.18
After 2022	173.77	-
Total	225.94	334.69

No deferred tax asset was recognized for part of tax losses carry-forward included in the above table, in amount of RON 161.96 million (2016: RON 192.97 million).

19. OTHER OPERATING INCOME

	December 31, 2017	December 31, 2016
Exchange gains from operating activities	69.95	84.47
Gains on disposal of non-current assets	28.19	24.95
Write-up tangible and intangible assets	4.71	6.43
Other operating income	260.72	372.29
Total	363.57	488.14

“Other operating income” includes insurance revenues related to the Brazi gas-fired power plant booked in 2017 estimated at the amount of RON 160.81 million.

20. NET INCOME FROM EQUITY-ACCOUNTED INVESTMENTS

	December 31, 2017	December 31, 2016
Share of net result of associated companies	8.36	6.93
Total	8.36	6.93

21. OTHER OPERATING EXPENSES

	December 31, 2017	December 31, 2016
Exchange losses from operating activities	39.17	112.91
Losses on disposal of non-current assets	138.14	15.94
Net income from provisions for litigations	(166.28)	(77.66)
Other operating expenses	112.46	341.25
Total	123.49	392.44

Losses on disposals of non-current assets include the amount of RON 126.68 million in relation to the business transfer of 19 marginal fields to Mazarine Energy Romania S.R.L (see Note 31d).

The position "Net income from provision for litigations" includes mainly a positive impact from the partial reversal of a provisions related to litigations with employees, following the outcome of court decisions in 2017.

The decrease in "Other operating expenses" line mainly refers to the lower valuation allowance for other financial assets considering the uncertainty regarding the expenditure recoverable from Romanian State.

Other operating expenses include an amount of RON 2.01 million (2016: RON 92.27 million) representing restructuring expenses.

22. COST INFORMATION

For the years ended December 31, 2017 and December 31, 2016 the consolidated income statement includes the following personnel expenses:

	December 31, 2017	December 31, 2016
Wages and salaries	1,711.88	1,769.79
Other personnel expenses	126.65	140.54
Total personnel expenses	1,838.53	1,910.33

Included in the above personnel expenses is the amount of RON 234.21 million, representing Group's contribution to state pension plan for the year ended December 31, 2017 (2016: RON 233.25 million).

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

	December 31, 2017	December 31, 2016
Depreciation and amortization	2,921.11	3,019.78
Net impairment intangible assets and property, plant and equipment	662.72	453.74
Total depreciation, amortization and net impairment	3,583.83	3,473.52

Net impairment losses booked during the year ended December 31, 2017 for intangible assets and property, plant and equipment (including those classified as held for sale) were related to Upstream segment in amount of RON 529.27 million (including mainly impairments for replaced assets, unsuccessful workovers and exploration assets in Romania), to Downstream Gas segment in amount of RON 127.24 million (including mainly impairments in relation to Brazi gas-fired power plant) and to Downstream Oil segment in amount of RON 6.21 million.

Net impairment losses booked during the year ended December 31, 2016 for intangible assets and property, plant and equipment (including those classified as held for sale) were related to Upstream segment in amount of RON 440.46 million (including mainly impairments for replaced assets, unsuccessful workovers and exploration assets in Romania) and to other segments in amount of RON 13.28 million.

In the consolidated income statement the impairment losses are included under depreciation, amortization and impairment charges in amount of RON 424.26 million (2016: RON 294.32 million) and exploration expenses in amount of RON 243.17 million (2016: RON 165.85 million). These impairment losses are netted off with write-ups amounting to RON 4.71 million (2016: RON 6.43 million).

22. COST INFORMATION (continued)

Impairment losses for 2017 include an amount of RON 3.48 million in relation to assets held for sale transferred to Mazarine Energy Romania S.R.L.

Rental expenses included in current period consolidated income statement are RON 210.30 million (2016: RON 203.47 million).

23. INTEREST INCOME AND INTEREST EXPENSES

	December 31, 2017	December 31, 2016
Interest income		
Interest income from receivables and other	30.15	136.11
Interest income from short term bank deposits	19.37	3.44
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivable	43.18	33.23
Total interest income	92.70	172.78
Interest expenses		
Interest expenses	(79.62)	(73.23)
Unwinding expenses for retirement benefits provision	(7.26)	(8.81)
Unwinding expenses for decommissioning provision, net of the unwinding income for related State receivable	(216.60)	(224.38)
Unwinding and discounting for other items and negative effect of changes in discount rate and timing for State receivables	(95.28)	(50.82)
Total interest expenses	(398.76)	(357.24)
Net interest result	(306.06)	(184.46)

24. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2017	December 31, 2016
Financial income		
Exchange gains from financing activities	24.97	33.13
Gains from investments and financial assets	1.90	0.83
Total financial income	26.87	33.96
Financial expenses		
Exchange losses from financing activities	(56.36)	(34.28)
Losses from financial assets and securities	(0.43)	(2.50)
Other financial expenses	(30.25)	(23.99)
Total financial expenses	(87.04)	(60.77)
Other financial income and expenses	(60.17)	(26.81)

25. TAXES ON INCOME

	December 31, 2017	December 31, 2016
Tax on income - current year	(406.72)	(228.55)
Deferred tax revenue/(expense)	(8.09)	1.27
Total taxes on income – revenue / (expense)	(414.81)	(227.28)

The reconciliation of net deferred tax is as follows:

	2017	2016
Deferred tax, net January 1	1,555.79	1,554.48
Deferred tax, net December 31	1,545.35	1,555.79
Changes in deferred tax	(10.44)	1.31
thereof deferred tax (expense)/ revenues in Other Comprehensive Income	(2.35)	0.04
thereof deferred tax revenues in the Income Statement	(8.09)	1.27
Reconciliation		
Profit before taxation	2,904.12	1,264.93
Income tax rate applicable for Parent company	16.00%	16.00%
Profit tax expense based on income tax rate of the Parent	(464.66)	(202.39)
Effect of differing foreign tax rates	6.81	8.78
Profit tax expense based on applicable rates	(457.85)	(193.61)
Tax effect of items that are (non-deductible) / non-taxable	43.04	(33.67)
Profit tax expense in the Income Statement	(414.81)	(227.28)

26. EARNINGS PER SHARE

Calculation of earnings/ (losses) per share is based on the following data:

	December 31, 2017	December 31, 2016
Net profit/ (loss) attributable to stockholders of the parent	2,490.81	1,043.21
Weighted average number of shares	56,643,903,559	56,643,903,559
Earnings/ (loss) per share in RON	0.0440	0.0184

The basic and diluted earnings/ (loss) per share are the same as there are no instruments that have a dilutive effect on earnings.

27. SEGMENT INFORMATION

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

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

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

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

Upstream activities consist of exploration, development and production of crude oil and natural gas and are focused on Romania and Kazakhstan. Upstream products consisting of crude oil and natural gas are sold mainly inside of OMV Petrom Group.

27. SEGMENT INFORMATION (continued)

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

Downstream Oil produces and delivers gasoline, diesel and other petroleum products to its customers. **Refining** division, part of Downstream Oil segment, operates one Romanian refinery, Petrobrazi.

Marketing division, part of Downstream Oil segment, delivers products to both Retail and Wholesale customers and operates in Romania, Bulgaria, Serbia and Republic of Moldova. OMV Petrom S.A. is the main player on the Romanian fuels market.

The key figure of operating performance for OMV Petrom Group is Operating result. In compiling the segment results, business activities with similar characteristics have been aggregated. Intra-Group sales and cost allocations by the parent company are determined in accordance with internal group policies. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

Operating segments:

December 31, 2017	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	7,758.41	232.98	264.07	80.04	(111.13)	173.29	8,164.68	(8,164.68)	-
Sales with third parties	458.30	18,943.17	4,472.97	14,470.20	-	33.61	19,435.08	-	19,435.08
Total sales	8,216.71	19,176.15	4,737.04	14,550.24	(111.13)	206.90	27,599.76	(8,164.68)	19,435.08
Operating result	1,661.34	1,767.65	86.31	1,681.34	-	(76.25)	3,352.74	(82.39)	3,270.35
Total assets**)	23,083.23	6,211.02	1,217.29	4,993.73	-	460.38	29,754.63	-	29,754.63
Additions in PPE/IA***)	2,497.70	387.62	(35.79)	423.41	-	1.59	2,886.91	-	2,886.91
Depreciation and amortization	2,132.61	765.93	101.33	664.60	-	22.57	2,921.11	-	2,921.11
Impairment losses (net)	529.27	133.45	127.24	6.21	-	-	662.72	-	662.72

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA), property, plant and equipment (PPE).

***) Additions in Downstream Gas were reduced by the amount of RON 81.01 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9)

27. SEGMENT INFORMATION (continued)

Information about geographical areas:

December 31, 2017	Romania	Rest of CEE	Rest of world	Consolidated total
Sales with third parties*)	16,102.96	3,308.16	23.96	19,435.08
Total assets**)	28,624.69	701.75	428.19	29,754.63
Additions in PPE/IA	2,810.82	42.49	33.60	2,886.91

*) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

**) Intangible assets (IA), property, plant and equipment (PPE).

Sales with third parties made in Rest of CEE (Central Eastern Europe) include sales made in Bulgaria amounting to RON 1,593.88 million in 2017.

Operating segments:

December 31, 2016	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	6,866.90	253.03	292.87	76.18	(116.02)	169.37	7,289.30	(7,289.30)	-
Sales with third parties	436.01	16,172.79	4,118.10	12,054.69	-	37.80	16,646.60	-	16,646.60
Total sales	7,302.91	16,425.82	4,410.97	12,130.87	(116.02)	207.17	23,935.90	(7,289.30)	16,646.60
Operating result	400.99	1,292.90	3.45	1,289.45	-	(64.90)	1,628.99	(152.79)	1,476.20
Total assets**)	23,690.47	6,689.54	1,471.75	5,217.79	-	481.41	30,861.42	-	30,861.42
Additions in PPE/IA***)	2,530.50	258.40	(186.25)	444.65	-	3.13	2,792.03	-	2,792.03
Depreciation and amortization	2,252.39	744.09	118.55	625.54	-	23.30	3,019.78	-	3,019.78
Impairment losses (net)	440.46	10.75	9.10	1.65	-	2.53	453.74	-	453.74

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA), property, plant and equipment (PPE).

***) Additions in Downstream Gas were reduced by the amount of RON 199.31 million in relation to the government grant receivable from the Romanian Ministry of Energy.

27. SEGMENT INFORMATION (continued)

Information about geographical areas:

December 31, 2016	Romania	Rest of CEE	Rest of world	Consolidated total
Sales with third parties*)	13,770.53	2,860.83	15.24	16,646.60
Total assets**)	29,706.28	679.63	475.51	30,861.42
Additions in PPE/IA	2,737.66	31.39	22.98	2,792.03

*) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

**) Intangible assets (IA), property, plant and equipment (PPE).

Sales with third parties made in Rest of CEE (Central Eastern Europe) include sales made in Bulgaria amounting to RON 1,361.22 million in 2016.

28. AVERAGE NUMBER OF EMPLOYEES

	December 31, 2017	December 31, 2016
Total OMV Petrom Group	14,210	15,288
thereof:		
OMV Petrom S.A.	13,322	14,380
Subsidiaries	888	908

The number of employees was calculated as the average of the month's end number of employees during the year.

29. RELATED PARTIES

The terms of the outstanding balances receivable from/payable to related parties are typically 0 to 90 days. The balances are unsecured and will be settled in cash. There are no significant provisions for doubtful debts relating to these balances and no significant expense recognized in the consolidated income statement in respect of bad or doubtful debts. There are no guarantees given or paid to related parties as at December 31, 2017 and December 31, 2016. Dividends receivable are not included in the below balances and revenues.

29. RELATED PARTIES (continued)

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

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Acquisition of petroleum products	1,065.37	0.97
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	364.97	76.61
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	104.32	46.96
OMV Exploration & Production GmbH	Delegation of personnel and other	58.55	14.99
OMV Aktiengesellschaft	Delegation of personnel and other	49.57	49.94
OMV Gas, Marketing & Trading GmbH*)	Services and other	22.35	6.72
OMV Gas & Power GmbH	Delegation of personnel and other	2.28	2.24
OMV International Oil & Gas GmbH	Delegation of personnel and other	2.23	2.29
OMV Austria Exploration & Production GmbH	Various services	1.83	0.93
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.62	-
OMV Solutions GmbH	Various services	0.07	-
Total OMV Petrom S.A.		1,673.16	201.65

*) During 2017 OMV Trading GmbH merged with OMV Gas, Marketing & Trading GmbH

	Nature of transaction	Purchases	Balances payable
OMV Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Acquisition of petroleum products & services	99.72	21.18
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	76.41	15.72
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	12.19	0.70
OMV International Services GmbH	Financial services	6.00	23.98
EconGas GmbH	Acquisition of gas	5.84	0.44
OMV Exploration & Production GmbH	Delegation of personnel and other	2.72	0.36
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	2.29	-
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.80	0.09
OMV Aktiengesellschaft	Delegation of personnel and other	0.67	0.12
Borealis AG	Various services	0.18	0.03
Total subsidiaries		206.82	62.62
Total OMV Petrom Group		1,879.98	264.27

29. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Sales of petroleum products	309.73	-
OMV Deutschland GmbH	Sales of propylene	279.76	44.27
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	133.45	22.58
OMV Petrom Global Solutions S.R.L.	Various services	23.03	2.30
OMV Exploration & Production GmbH	Delegation of personnel and other	18.54	2.67
OMV Aktiengesellschaft	Delegation of personnel and other	9.25	3.06
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Various services	2.59	-
OMV Austria Exploration & Production GmbH	Various services	0.27	0.27
OMV Gas & Power GmbH	Delegation of personnel and other	0.16	-
Trans Gas LPG Services S.R.L.	Various services	0.10	0.03
OMV Petrol Ofisi A.Ş.	Sales of petroleum products	0.06	-
OMV Gas, Marketing & Trading GmbH*)	Services and other	0.03	-
Energy Production Enhancement S.R.L.	Other services	0.03	-
Borealis AG	Various services	0.02	-
Total OMV Petrom S.A.		777.02	75.18

*) During 2017 OMV Trading GmbH merged with OMV Gas, Marketing & Trading GmbH.

	Nature of transaction	Revenues	Balances receivable
OMV Petrom Group subsidiaries			
EconGas Hungária Földgázkereskedelmi Kft.	Various services	2.34	-
OMV Petrom Global Solutions S.R.L.	Various services	1.83	0.15
OMV International Services GmbH	Other services	1.00	26.73
OMV Refining & Marketing GmbH	Delegation of personnel and other	0.27	0.08
Borealis AG	Various services	0.09	-
OMV Offshore Bulgaria GmbH	Various services	0.06	0.01
OMV Aktiengesellschaft	Delegation of personnel and other	0.02	-
Trans Gas LPG Services S.R.L.	Various services	0.02	-
Total subsidiaries		5.63	26.97
Total OMV Petrom Group		782.65	102.15

29. RELATED PARTIES (continued)

During 2017, OMV Petrom Group had the following interest income and interest expenses with related parties (including balances as of December 31, 2017 for interest payable and interest receivable):

	Interest expense	Balances interest payable
OMV Petrom S.A. - parent company		
OMV Petrom Global Solutions S.R.L.	1.40	0.23
Total OMV Petrom S.A.	1.40	0.23
Total OMV Petrom Group	1.40	0.23

	Interest income	Balances interest receivable
OMV Petrom S.A. - parent company		
Petrom Nădlac S.R.L.	-	-
Energy Production Enhancement S.R.L.	-	-
Total OMV Petrom S.A.	-	-
Total OMV Petrom Group	-	-

29. RELATED PARTIES (continued)

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

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Acquisition of petroleum products	399.26	28.29
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	371.25	75.31
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	90.89	28.10
OMV Exploration & Production GmbH	Delegation of personnel and other	52.01	13.16
OMV Aktiengesellschaft	Delegation of personnel and other	33.92	20.71
OMV Trading GmbH	Services and other	7.39	2.87
OMV International Oil & Gas GmbH	Delegation of personnel and other	1.45	0.82
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.05	0.88
OMV Austria Exploration & Production GmbH	Various services	0.70	-
OMV Gas & Power GmbH	Delegation of personnel and other	0.17	0.63
Total OMV Petrom S.A.		958.09	170.77

29. RELATED PARTIES (continued)

	Nature of transaction	Purchases	Balances payable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	72.10	16.79
OMV Refining & Marketing GmbH	Acquisition of petroleum products & services	37.27	12.16
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	13.63	0.89
OMV Exploration & Production GmbH	Delegation of personnel and other	5.92	1.10
OMV International Services GmbH	Financial services	5.75	37.48
EconGas GmbH	Acquisition of gas	5.67	-
Petrol Ofisi A.Ş.	Acquisition of petroleum products	4.52	0.52
Petrom Nădlac S.R.L.	Various services	3.37	-
Borealis AG	Various services	1.70	0.32
OMV Aktiengesellschaft	Delegation of personnel and other	1.13	0.12
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.88	0.12
Total subsidiaries		151.94	69.50
Total OMV Petrom Group		1,110.03	240.27

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Sales of petroleum products	648.79	66.49
OMV Deutschland GmbH	Sales of propylene	178.05	30.16
OMV Trading GmbH	Services and other	63.14	-
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	61.56	20.49
OMV Petrom Global Solutions S.R.L.	Various services	23.76	3.62
OMV Exploration & Production GmbH	Delegation of personnel and other	17.57	3.10
OMV Aktiengesellschaft	Delegation of personnel and other	11.89	2.76
OMV Gas & Power GmbH	Delegation of personnel and other	1.10	-
Trans Gas LPG Services S.R.L.	Various services	0.11	0.03
Borealis AG	Various services	0.02	-
OMV Supply & Trading AG	Sales of petroleum products	-	0.67
Petrom Nădlac S.R.L.	Various services	-	0.01
Total OMV Petrom S.A.		1,005.99	127.33

29. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Various services	1.78	0.03
OMV International Services GmbH	Other services	1.08	20.80
OMV Refining & Marketing GmbH	Delegation of personnel and other	0.89	0.02
OMV Aktiengesellschaft	Delegation of personnel and other	0.45	-
OMV Petrol Ofisi A.Ş.	Various services	0.22	-
Borealis AG	Various services	0.09	-
OMV Offshore Bulgaria GmbH	Various services	0.06	0.01
Trans Gas LPG Services S.R.L.	Various services	0.02	-
Total subsidiaries		4.59	20.86
Total OMV Petrom Group		1,010.58	148.19

During 2016, OMV Petrom Group had the following interest income and interest expenses with related parties (including balances as of December 31, 2016 for interest payable and interest receivable).

	Interest expense	Balances interest payable
OMV Petrom S.A. - parent company		
OMV Petrom Global Solutions S.R.L.	0.77	0.06
Total OMV Petrom S.A.	0.77	0.06
Total OMV Petrom Group	0.77	0.06

	Interest income	Balances interest receivable
OMV Petrom S.A. - parent company		
Petrom Nădlac S.R.L.	0.04	-
Energy Production Enhancement S.R.L.	0.00	0.00
Total OMV Petrom S.A.	0.04	0.00
Total OMV Petrom Group	0.04	0.00

29. RELATED PARTIES (continued)

Loan to OMV Petrom Global Solutions S.R.L.

A loan agreement with maturity on June 15, 2019 was signed in 2014 between OMV Petrom S.A. and OMV Petrom Global Solutions S.R.L. for a maximum limit of RON 27.00 million. There are no outstanding amounts under this facility as at December 31, 2017 and 2016. Relationship with OMV Petrom Global Solutions S.R.L. also comprises the cash pooling during 2017 and 2016, included in Note 15c).

Loan to Petrom Nădlac S.R.L.

During 2014, OMV Petrom S.A. granted an intercompany loan to Petrom Nădlac S.R.L. with the maximum limit of RON 2.70 million, having maturity on April 30, 2019. The outstanding amount as at December 31, 2016 was nil. The company was liquidated during 2017.

Loan to Energy Production Enhancement S.R.L.

During 2016, OMV Petrom S.A. granted an intercompany loan to Energy Production Enhancement S.R.L. with the maximum limit of RON 0.10 million, having maturity on June 30, 2016. The loan was fully repaid on due date.

Ultimate parent

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

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

Key management remuneration

For 2017, the General Meeting of Shareholders approved a net remuneration for each member of the Supervisory Board amounting to EUR 20,000 per year (2016: EUR 20,000 per year), an additional net remuneration per meeting of EUR 4,000 for each member for the Audit Committee (2016: EUR 4,000 per meeting) and an additional net remuneration per meeting of EUR 2,000 for each member for the newly Presidential and Nomination Committee.

At December 31, 2017 and December 31, 2016, there are no loans or advances granted by the Group to the members of the Supervisory Board. As at December 31, 2017 and December 31, 2016, the Group does not have any obligations regarding pension payments to former members of the Supervisory Board.

29. RELATED PARTIES (continued)

The remuneration paid to members of the Executive Board and to the directors reporting to Executive Board members consists of a fixed monthly salary, bonuses and other benefits, including benefits in-kind. The aggregate amount of remuneration and other benefits, including benefits in-kind, paid in 2017 to the benefit of the members of the Executive Board and of the directors reporting to Executive Board members, collectively as a group, for their activities performed in all capacities, amounted to RON 61.42 million (2016: RON 52.71 million).

30. DIRECT AND INDIRECT INVESTMENTS OF OMV PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2017

Company Name	Share interest percentage	Consolidation treatment**)	Activity	Country of incorporation
Subsidiaries (>50%)				
Tasbulat Oil Corporation LLP	100.00%	FC	Oil exploration and production in Kazakhstan	Kazakhstan
Petrom Moldova S.R.L.	100.00%	FC	Fuel distribution	Moldova
OMV Petrom Marketing S.R.L.	100.00%	FC	Fuel distribution	Romania
OMV Petrom Gas S.R.L.	99.99%	FC	Gas distribution	Romania
Petromed Solutions S.R.L.	99.99%	FC	Medical services	Romania
OMV Petrom Aviation S.A. *)	100.00%	FC	Airport fuel sales	Romania
OMV Srbija DOO	99.96%	FC	Fuel distribution	Serbia
OMV Bulgaria OOD	99.90%	FC	Fuel distribution	Bulgaria
Kom Munai LLP	95.00%	FC	Oil exploration and production in Kazakhstan	Kazakhstan
Trans Gas LPG Services S.R.L.	80.00%	NC	LPG transportation related services	Romania
Petrom Exploration & Production Limited	99.99%	FC	Exploration and production services	Isle of Man
Energy Production Enhancement S.R.L.	100.00%	NC	Services incidental to oil and gas production	Romania
Associated companies (20-50%)				
OMV Petrom Global Solutions S.R.L.	25.00%	EM	Financial, IT and other services	Romania
Brazi Oil & Anghelescu Prod Com S.R.L.	37.70%	NAE	Fuel distribution	Romania
Asociația Română pentru Relația cu Investitorii	20.00%	NAE	Public representation	Romania

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

**) Consolidation treatment:

FC Full consolidation

EM Accounted for at equity (associated company)

NC Not-consolidated subsidiary (companies of relative insignificance, both individually and collectively, to the consolidated financial statements)

NAE Other investment recognized at cost (associated companies of relatively little importance to the assets and earnings of the consolidated financial statements).

At the beginning of 2017 it was finalized the sale of 100% shares in Tasbulat Oil Corporation LLP from Tasbulat Oil Corporation BVI to OMV Petrom S.A. In December 2017, Tasbulat Oil Corporation BVI was liquidated.

On May 24, 2017 it 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 completion of the sale transaction.

Also, during the year 2017, Petrom Nădlac S.R.L. and Franciza Petrom 2001 S.A. were liquidated.

The subsidiaries which are not consolidated have very low volumes of business; the total sales, net income/losses and equity of such companies represent less than 1% of the consolidated totals.

31. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2017 OMV Petrom Group has drawn borrowings amounting to RON 42.49 million (2016: no drawings) and has repaid borrowings amounting to RON 687.55 million (2016: RON 273.42 million) and finance lease obligations amounting to RON 37.23 million (2016: RON 101.87 million).

The following table shows a reconciliation of the changes in liabilities arising from financing activities:

	Interest-bearing debts	Finance lease liabilities	Total
1 January, 2017	1,550.32	209.09	1,759.41
Repayments of borrowings	(687.55)	(37.23)	(724.78)
Increase in borrowings	42.49	-	42.49
Total cash flows relating to financing activities	(645.06)	(37.23)	(682.29)
Exchange differences	(23.57)	3.31	(20.26)
Other changes	5.61	19.43	25.04
Total non-cash changes	(17.96)	22.74	4.78
31 December, 2017	887.30	194.60	1,081.90

b) Investments and other financial assets

During 2017, OMV Petrom Group did not acquire, nor contributed to the share capital of any entity.

During 2016, OMV Petrom Group set-up a new non-consolidated entity, Energy Production Enhancement S.R.L., in which it holds 100% interest, generating a cash outflow amounting to RON 0.67 million.

31. CASH FLOW STATEMENT INFORMATION (continued)

c) Disposal of Group companies

In December 2017, OMV Petrom Group sold its 99.99% interest in, as well as the loan granted to the wind power production company OMV Petrom Wind Power S.R.L. to Transeastern Power B.V.

Net assets of disposed subsidiary at the date of disposal	2017
Assets	
Intangible assets	12.30
Property, plant and equipment	78.23
Deferred tax assets	1.43
Inventories	0.22
Trade receivables	3.81
Other financial assets	2.16
Other assets	0.33
Cash and cash equivalents	1.70
Liabilities disposed	
Provisions	(6.04)
Trade payables	(0.98)
Other liabilities	(0.51)
Net assets disposed	92.65

Gain/(Loss) on disposal of subsidiary	2017
Proceeds on disposal (for shares and loan)	94.67
Net assets disposed of	(92.65)
Gain on disposal of subsidiary	2.02

Net cash flow from disposal of subsidiary	2017
Proceeds on disposal	94.67
Deferred consideration	(13.19)
Cash disposed	(1.70)
Proceeds received on disposal of subsidiary, net of cash disposed	79.78

31. CASH FLOW STATEMENT INFORMATION (continued)

In relation to disposal of subsidiary Wind Power Park S.R.L., the deferred consideration in amount of RON 13.19 million was received in January 2018.

Also, during 2017 the not-consolidated entities Petrom Nădlac S.R.L. and Franciza Petrom 2001 S.A. were liquidated, generating a cash inflow of RON 0.43 million and a net loss of RON 0.31 million.

During 2016, the subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated, with no effect on the cash flows.

d) Transfer of business

In August 2017, OMV Petrom Group transferred 19 marginal onshore fields to Mazarine Energy Romania S.R.L.

Net assets at the date of transfer	2017
Intangible assets and property, plant and equipment	179.16
Provisions and liabilities	(129.82)
Net assets	49.34

Gain/(Loss) on transfer of business	2017
Proceeds on transfer of business	52.48
Net assets disposed of	(49.34)
Gain on transfer of business	3.14

Net cash flow from transfer of business	2017
Net consideration received	52.48
Net cash inflow on transfer of business	52.48

In connection with the transfer of marginal fields and related decommissioning obligations, the Group booked a write-off of receivables in amount of RON 7.49 million.

e) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by OMV Petrom Group for the year ended December 31, 2017 is of RON 241.80 million (2016: RON 501.18 million), out of which the

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

amount of RON 58.98 million is related to operating activities (2016: RON 99.28 million) and the amount of RON 182.82 million represents cash outflows for exploration investing activities (2016: RON 401.90 million).

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

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

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

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

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

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value.

In accordance with IFRS 13, the individual levels are defined as follows:

Level 1: Using quoted prices in active markets for identical assets or liabilities.

Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

Fair value hierarchy for derivative instruments as at December 31, 2017

Financial instruments on asset side				
	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	7.86	-	7.86
Total	-	7.86	-	7.86

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

Financial instruments on liability side

	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-
Liabilities on other derivatives	-	(56.96)	-	(56.96)
Total	-	(56.96)	-	(56.96)

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

Financial instruments on asset side

	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	0.05	-	0.05
Total	-	0.05	-	0.05

Financial instruments on liability side

	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-
Liabilities on other derivatives	-	(9.41)	-	(9.41)
Total	-	(9.41)	-	(9.41)

The financial liabilities whose fair values differ from their carrying amounts as at December 31, 2017 and December 31, 2016 (Level 2 – observable inputs), as well as the respective differences are presented in the tables below. The fair value of these financial liabilities was determined by discounting future cash flows using interest rates prevailing at reporting date for similar liabilities with similar maturities.

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

December 31, 2017			
Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	894.48	887.30	7.18
Finance lease liabilities	194.03	194.60	(0.57)
Total	1,088.51	1,081.90	6.61

December 31, 2016			
Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,537.99	1,550.32	(12.33)
Finance lease liabilities	210.61	209.09	1.52
Total	1,748.60	1,759.41	(10.81)

Offsetting of financial instruments

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

The following table presents the carrying amounts of recognized financial assets and liabilities that are subject to various netting arrangements, amounts that meet the criteria of offsetting in the statement of financial position as at December 31, 2017 in accordance with IAS 32 and shows in the net column the amounts presented in the statement of financial position.

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

Offsetting of financial assets 2017

	Gross amounts financial assets	Financial liabilities set-off	Net amounts presented in the statement of financial position	Financial liabilities with right of set-off (not offset)	Net amounts
Other financial assets	9.74	(7.38)	2.36 *	-	2.36
Total	9.74	(7.38)	2.36	-	2.36

*) included in Other financial assets of RON 243.96 million in the statement of financial position.

Offsetting of financial liabilities 2017

	Gross amounts financial liabilities	Financial assets set-off	Net amounts presented in the statement of financial position	Financial assets with right of set-off (not offset)	Net amounts
Other financial liabilities	7.38	(7.38)	- *	-	-
Total	7.38	(7.38)	-	-	-

*) included in Other financial liabilities of RON 371.25 million in the statement of financial position.

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

33. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2017 the total commitments engaged by OMV Petrom Group for investments (except those in relation to joint arrangements) are in amount of RON 860.90 million (2016: RON 654.10 million), out of which RON 805.68 million related to property, plant and equipment (2016: RON 545.47 million) and RON 55.22 million for intangible assets (2016: RON 108.63 million).

The Group has additional commitments in relation to joint arrangements - for details please refer to Note 34.

Litigations

We face a variety of litigations, arbitrations, proceedings and disputes referring to a wide range of subjects, such as, but without being limited to, real estate matters, fiscal matters, intellectual property, environmental, competition, administrative matters, commercial matters, labour related litigation, debt recovery, insolvency of contractors, criminal deeds, and contraventional matters. It is possible that unanticipated judicial outcomes might occur.

OMV Petrom Group provides for litigations that are likely to result in obligations. Management is of the opinion that litigations, to the extent not covered by provisions or insurance, will not materially affect OMV Petrom Group's financial position.

Contingent liabilities

The production facilities and properties of all Group companies are subject to a variety of environmental protection laws and regulations in the countries where they operate; provisions are made for probable obligations arising from environmental protection measures.

In Romania, group activities related to refining of petroleum products could lead to obligations related to soil remediation activities, depending on the requirements of environmental agencies, when these activities are closed. With reference to Arpechim refinery site, at the date of these financial statements, contamination existence and a reliable estimation of the amount required to settle a potential remediation obligation cannot be determined until performance of specialized studies in order to establish the degree of contamination, if any; consequently, no provision has been booked by the Group in this respect.

In the first trimester of 2016, the Bulgarian Commission for Protection of Competition (CPC) announced the initiation of two investigations regarding an alleged infringement of the competition rules on the fuel market, OMV Bulgaria being one of the investigated companies.

In the last trimester of 2016, CPC issued a Statement of Objections and six Disclosure Rulings addressed to each investigated company. As of December 31, 2016 an outflow of resources was not considered probable by the management, therefore no provision was recorded in this respect. In 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

33. COMMITMENTS AND CONTINGENCIES (continued)

implemented internal regulations and measures in order to comply with the commitments.

In June 2017 the second investigation against OMV Bulgaria was also closed by CPC without finding any violation of the national and European competition rules. As of December 31, 2017, there are no on-going investigations about the infringement of competition rules on the fuel market initiated by Bulgarian Commission for Protection of Competition (CPC) against OMV Bulgaria.

OMV Petrom S.A. was subject to a partial tax audit having as scope the oil and gas royalties for the period 2011-2015. As at December 31, 2016 the Company assessed that it was not probable that an outflow of resources embodying economic benefits would be required, therefore did not reflect any provision in the financial statements. In 2017, the tax audit in relation to this matter was closed without any findings.

OMV Petrom Group has contingent liabilities representing performance guarantees in amount of RON 64.38 million as at December 31, 2017 (2016: RON 50.77 million).

34. INTERESTS IN JOINT ARRANGEMENTS

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

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

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

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

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

OMV Petrom's share of the aggregate capital commitments for these joint arrangements as at December 31, 2017 is amounting to RON 117.30 million (2016: RON 57.82 million), mainly in relation to onshore drilling requirements.

35. RISK MANAGEMENT

Capital risk management

OMV Petrom Group continuously manages its capital adequacy to ensure that its entities will be optimally capitalized, in accordance with their risk exposure, in order to maximize the return to stakeholders.

The capital structure of OMV Petrom Group consists of equity attributable to stockholders of the parent (comprising share capital, reserves and revenue reserves as disclosed in the “Consolidated Statement of Changes in Equity”) and debt (which includes the short and long term borrowings disclosed in Note 15). Capital risk management at OMV Petrom Group is part of the value management and it is based on permanent review of the gearing ratio of the group.

Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents. Due to the significant cash balance the Group reported a net cash position of RON 2,897.15 million at December 31, 2017 compared to RON 236.59 million at December 31, 2016.

OMV Petrom Group’s management reviews the capital structure, as well as group risk reports regularly. As part of this review, the cost of capital and the risks associated with each class of capital are considered.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 4 to the consolidated financial statements.

Financial risk management objectives and policies

The objective of OMV Petrom Risk Management function is to assess if the risk estimations are within the tolerance levels set in the Risk Appetite statement and to provide assurance that the risks are well managed and kept under control by the risk owners. Low probability high potential impact risks are assessed and monitored individually, with a dedicated set of mitigating measures put in place.

The Risk Management function reports to OMV Petrom Executive Board and Supervisory Board’s Audit Committee an overview of OMV Petrom Group’s risk profile for midterm horizon (twice per year) and for the long term horizon (once per year). The reports summarize the risk management activities and initiatives undergone for mitigating the Group’s risk exposures.

Risk exposures and responses

OMV Petrom’s Risk Management function performs a central coordination of a mid-term Enterprise Wide Risk Management (EWRM) and a long-term Strategic Risk Management processes in which it actively pursues the identification, analysis, evaluation and treatment of significant risks (market and financial, operational and strategic) in order to assess their effects on planned cash flows, to engage management in planning and implementing mitigating actions and to provide to the executive and Supervisory Board’s Audit Committee members the assurance that risks are under control and within the tolerance levels from the risk appetite.

35. RISK MANAGEMENT (continued)

Risk Management function monitors and manages the significant risks of the Group through an integrated process in line with ISO 31000 EWRM standard.

Beside the business operational and strategic category of exposures, the market and financial risk category plays an important role in the Group's risk profile and it is managed with dedicated diligence – market and financial risks include commodity market price risk, foreign exchange risk, interest rate risk, counterparty credit risk, and liquidity risk.

Response wise, any risk which increases near to its significance level or which is sensitive to the risk appetite level is monitored and specific treatment plans are proposed, approved and implemented accordingly in order to decrease the risk exposure.

Commodity Market Price Risk

The Group is naturally exposed to the market risks arising from the price driven volatility of the cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. The market risk has core strategic importance within the Group's risk profile and its midterm liquidity.

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

Foreign exchange risk management

Because OMV Petrom Group operates in many currencies therefore the corresponding exchange risks are analyzed. OMV Petrom Group is mostly exposed to the movement of the US dollar and Euro against Romanian Leu. Other currencies have only limited impact on cash flows and Operating result.

Financial derivative instruments may be used where appropriate to hedge the risk associated with foreign currency transactions, whereas a decrease of USD/RON currency rate or an increase of EUR/RON currency rate is unfavorable to the Group's cash flows.

Foreign currency sensitivity analysis

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

	Assets		Liabilities	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Thousand USD	443,922	468,286	26,411	15,753
Thousand EUR	93,620	46,095	296,489	336,243

35. RISK MANAGEMENT (continued)

Translation risk arises on the consolidation of subsidiaries preparing their financial statements in other currencies than in Romanian lei, but also from the consolidation of assets and liabilities naturally denominated in foreign currency. Foreign currency assets and liabilities are those which result from transactions denominated in other currencies than the functional currencies of OMV Petrom Group companies. The largest exposures result from changes in the value of the US dollar and Euro against the Romanian Leu.

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

+10% increase in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2017	2016	2017	2016
Profit/ (Loss)	9,051	2,113	(20,287)	(29,015)
Other comprehensive income	32,700	43,140	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2017	2016	2017	2016
Profit/ (Loss)	(9,051)	(2,113)	20,287	29,015
Other comprehensive income	(32,700)	(43,140)	-	-

(i) This is mainly attributable to the exposure on USD financial assets and financial liabilities.

(ii) This is mainly attributable to the exposure on EUR loans and leases.

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

Interest rate risk management

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

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount

35. RISK MANAGEMENT (continued)

of liability outstanding at the reporting date was outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates (with all other variables held constant).

Analysis for change in interest rate risk

Variable rate borrowings:

	Balance as at		Effect of 1% change in interest rate	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Short term borrowings	325.25	405.29	3.25	4.05
Long term borrowings	561.61	1,150.19	5.62	11.50

In 2017, there was no need for hedging the interest rate risk, hence no financial instruments were used for such scope.

Counterparty Credit Risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations or on its financial standing, resulting in financial loss to OMV Petrom Group. The main counterparty credit risks are assessed, monitored and managed at OMV Petrom Group level using predetermined limits for specific countries, banks and business partners. On the basis of creditworthiness, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis. For all counterparties depending on their liquidity class, parts of their credit limits are secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by internal guidelines.

OMV Petrom Group does not have any significant credit risk concentration exposure to any single counterparty or any group of counterparties having similar characteristics. The Group's cash and cash equivalent is primarily invested in banks with rating at least BBB- (S&P and Fitch) and Baa3 (Moody's).

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows throughout OMV Petrom Group are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. To ensure that OMV Petrom Group remains solvent at all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Group financial liabilities is presented in Note 16.

36. EXPENSES GROUP AUDITOR

In 2017 the statutory auditor Ernst & Young Assurance Services SRL had a contractual statutory audit fee of EUR 564,000 (for the statutory audit of the standalone and consolidated annual financial statements of the Company and of its Romanian subsidiaries and associates). Services contracted with the statutory auditor other than audit services were of EUR 86,350, being other assurance services in relation to certain mandatory reports issued by the Company of EUR 61,250 and fees for services other than assurance services that are not prohibited by Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of EUR 25,100.

Other EY network firms performed audit services for the OMV Petrom subsidiaries of EUR 152,400.

37. 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.

These financial statements, presented from page 111 to page 207, comprising the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, were approved on March 19, 2018.



Mariana Gheorghe,
Chief Executive Officer
President of the EB



Stefan Waldner,
Chief Financial Officer
Member of the EB



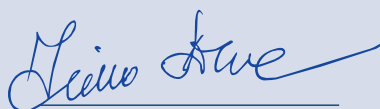
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Downstream Oil

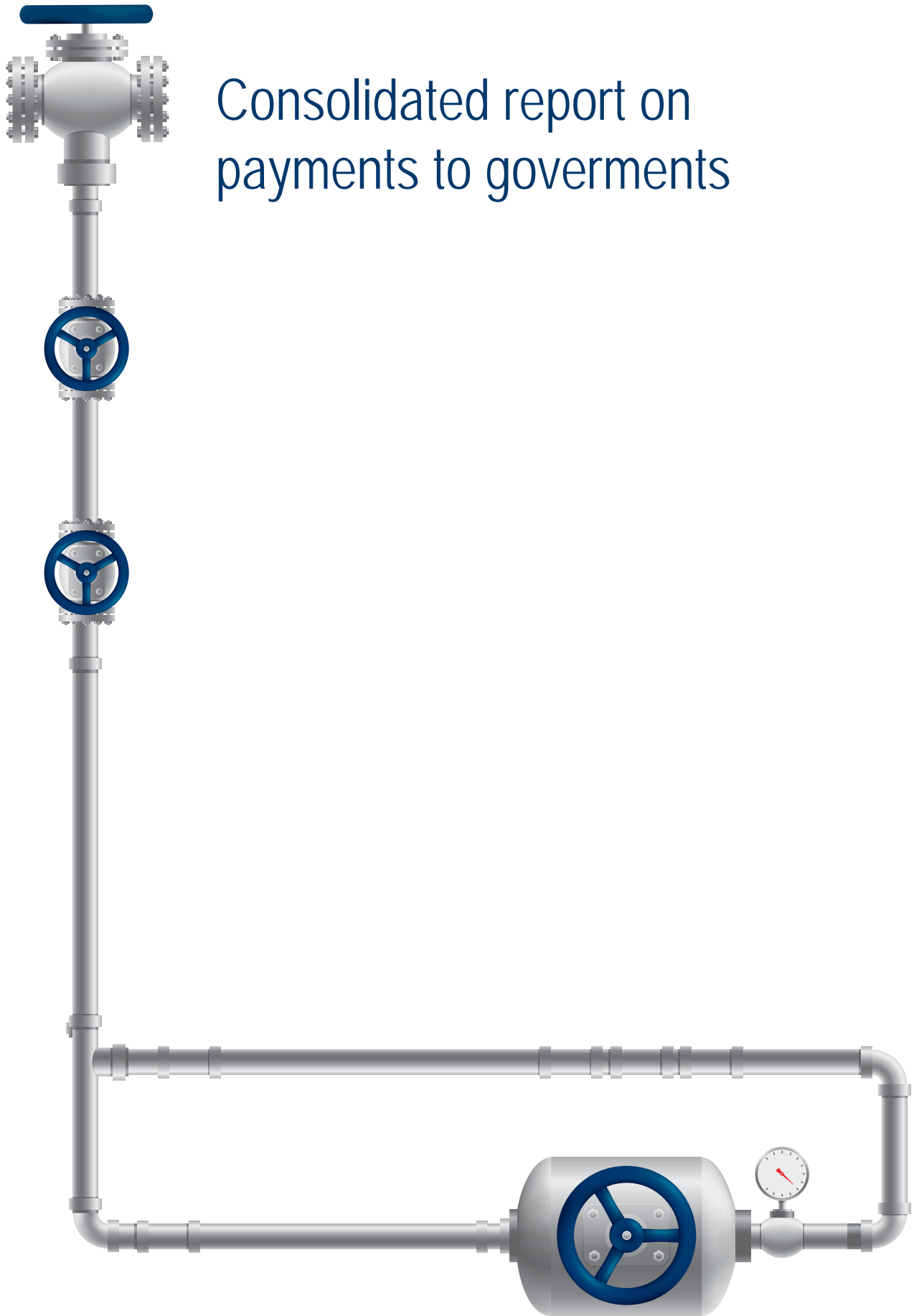


Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

Consolidated report on payments to governments



Consolidated report on payments to governments for the year 2017

Introduction

Chapter 8 of the Annex 1 of Ministry of Finance Order 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards (hereinafter the **“Regulation”**), transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council, requires that large undertakings and public interest entities that are active in the extractive industry or logging of primary forests prepare and publish a report on payments to governments on an annual basis. Large undertakings and public interest entities which are under the obligation to prepare consolidated financial statements are required to prepare a consolidated report on payments to governments.

OMV Petrom S.A. (hereinafter the **“Company”**) is, on one side, operating in the extractive industry and, on the other side, admitted for trading on Bucharest Stock Exchange (with shares) and London Stock Exchange (with global depository receipts). Therefore, in accordance with the above mentioned Regulation, OMV Petrom has prepared the following consolidated report (hereinafter the **“Report”**) on payments to governments. The Report covers OMV Petrom S.A. and its subsidiaries performing extractive activities (Upstream business segment).

The **“Basis of Preparation”** section provides information to the reader about the contents of the Report. This section also includes information on the type of payment for which disclosure is required and on the manner in which OMV Petrom has interpreted the Regulation for the purpose of the preparation of the Report.

From a socio-economic perspective, our Company and its subsidiaries have a larger contribution to countries in which they operate, than the reportable payments under the Regulation. OMV Petrom group companies make payments to governments also in connection with other segments of activity, not only Upstream, i.e. Downstream Oil, Downstream Gas, Corporate & Other. Besides government payments, OMV Petrom group companies contribute to the economies of the countries in which they operate by providing jobs for employees and contractors, purchasing goods and materials from local suppliers and undertaking social investment activities.

Basis of preparation

Reporting entities

Under the requirements of the Regulation, OMV Petrom is required to prepare a consolidated report covering payments made to Governments by itself and any subsidiary undertakings included in the consolidated group financial statements, which is active in the extractive industry. Therefore, the reporting entities for the purpose of this Report are OMV Petrom S.A. (Romania), Tasbulat Oil Corporation LLP (Kazakhstan) and KOM-Munai LLP (Kazakhstan).

Activities within the scope of the Report

Payments made by OMV Petrom group (hereinafter OMV Petrom) to governments in connection with any of the following activities: exploration, prospection, discovery, development and extraction of minerals, oils and natural gas deposits or other materials (**“extractive activities”**) are presented in this report.

Government

A “**government**” is defined as any national, regional or local authority of a country and includes a department, agency or entity undertaking that is controlled by the government authority.

Project

According to the Regulation, the payments are reported:

- ▶ on government and governmental body basis;
- ▶ by type of payment;
- ▶ on “project” basis, where possible.

For the purpose of this report “**project**” is defined as the operational activities which are governed by a single contract, licence, lease, concession or similar legal agreement, and form the basis for payment liabilities to the government. Where these agreements as per the aforementioned definition are substantially interconnected, they are treated for the purpose of this Report as a single project.

“Substantially interconnected” is defined as a set of operationally and geographically integrated contracts, licences, leases or concessions or related agreements with substantially similar terms that are signed with a government, giving rise to payment liabilities. Such agreements can be governed by a single contract, joint venture, production sharing agreement or other overarching legal agreement.

There may be instances - for example, corporate income taxes - where it is not possible to attribute the payment to a single project and therefore OMV Petrom discloses these payments at the country level in the current Report.

Cash and Payments in Kind

In accordance with the Regulation, amounts have to be reported on a cash basis, meaning that they are reported in the period in which they are paid, regardless of the period in which they are accounted for on an accruals basis.

Refunds are also reported in the period in which they are received and will either be offset against payments made in the period or be shown as negative amounts in the Report.

Payments in kind made to a government are converted to an equivalent cash value based on the most appropriate and relevant valuation method for each payment type. This can be at cost or market value and an explanation is provided in the Report to help explain the valuation method. If applicable, the related volumes would be also included in the Report.

Materiality

Payments made as a single payment or a series of related payments that fall below EUR 100,000 (RON 443,400) within a financial year are excluded from this Report.

Reporting currency

Reporting currency is Romanian Leu (RON). Payments made in currencies other than RON are translated for the purposes of this Report at the average exchange rate of the reporting period.

Payment types

Production Entitlements

Under production sharing agreements (PSA's) the host government is entitled to a share of the oil and gas produced and these entitlements are often paid in kind. OMV Petrom has not made such payments in the year.

Taxes

Taxes levied on income, production or profits of companies are reported. Refunds will be netted against payments and shown accordingly. Consumption taxes, personal income taxes, social security contributions, sales taxes are not reported under the Regulation. Also, other taxes such as property and environmental taxes are not reported.

Royalties

Royalties are payments for the rights to extract oil and gas resources, typically at set percentage of production value.

Dividends

In accordance with the Regulation, dividends are reported when paid to a government in lieu of production entitlements or royalties. Dividends that are paid to a government as an ordinary shareholder are not reported, as long as the dividends are paid in the same terms and conditions as to other shareholders.

For the year ended 31 December 2017, OMV Petrom had no such reportable dividend payments to a government.

Bonuses

Bonuses include signature, discovery and production bonuses in each case to the extent paid in relation to the relevant activities. OMV Petrom has not made any payments in the category in the year.

Fees

These include licence fees, rental fees, entry fees and other considerations for licences and/or concessions, respectively for access to the area where extractive activities will be performed.

The Report excludes fees paid to a government for administrative services that are not specifically related to extractive activities or access to extractive resources. In addition, payments made in return for services provided by a government are also excluded.

Infrastructure Improvements

The Report should include payments made by OMV Petrom for infrastructure improvements such as a building of a road or bridge that serve the community, irrespective if OMV Petrom pays the amounts to non-government entities. These are reported either when the cash contribution was paid to the government or when the relevant assets are handed over to the government or made available for use by the local community. Payments that have a social investment nature, donations or sponsorships are excluded from the Report.

Payments overview

The overview table below shows the relevant payments to governments that were made by OMV Petrom in the year that ended December 31, 2017.

Of the seven payment types that are required by the Regulation to be reported upon, OMV Petrom did not pay any dividends, production entitlements, bonuses or infrastructure improvements that met the Regulation definition and therefore these categories are not shown.

(in thousands of RON)	Taxes (on income, production or profit)	Royalties	Fees (license, rental, entry and other)	Total of Payments
Romania	667,601	565,782	61,324	1,294,706
Kazakhstan	62,967	-	4,343	67,310
Total	730,568	565,782	65,667	1,362,016

Payments by project, government and type of payment

(in thousands of RON)	Taxes (on income, production or profit)	Royalties	Fees (license, rental, entry and other)	Total of Payments
Romania				
Payments per project				
Onshore production zones	-	430,380	61,186	491,566
Onshore joint ventures	-	3,198	29	3,226
Offshore Black Sea	-	132,204	109	132,313
Payments not attributable to projects	667,601	-	-	667,601
Total	667,601	565,782	61,324	1,294,706
Payments per Government				
State Budget	667,601	565,782	-	1,233,383
National Company of Forests	-	-	43,407	43,407
Local City Councils	-	-	14,409	14,409
National Agency for Mineral Resources	-	-	3,062	3,062
Conpet SA	-	-	446	446
Total	667,601	565,782	61,324	1,294,706
Kazakhstan				
Payments per project				
Tasbulat area	29,172	-	2,487	31,660
Komsomolskoe	33,795	-	1,855	35,650
Total	62,967	-	4,343	67,310
Payments per Government				
State Revenue Committee ¹	62,967	-	-	62,967
Training centers, universities ²	-	-	2,390	2,390
Akimat of Mangystau Region ³	-	-	1,953	1,953
Total	62,967	-	4,343	67,310
Total	730,568	565,782	65,667	1,362,016

¹ State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan;

² Financing of various expenses with regard to university training centers as agreed within the concession agreement;

³ Financing of various projects under the joint control of the Akimat of Mangystau Region and OMV Petrom within the concession agreement.



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Chief Executive Officer
President of the EB



Stefan Waldner,
Chief Financial Officer
Member of the EB



Peter Zeilinger,
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This report may contain forward-looking statements. These statements reflect the Company's current knowledge and its expectations and projections about future events and may be identified by the context of such statements or words such as "anticipate," "believe", "estimate", "expect", "intend", "plan", "project", "target", "may", "will", "would", "could" or "should" or similar terminology. By their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements.

None of the future projections, expectations, estimates or prospects in this report should in particular be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared or the information and statements contained herein are accurate or complete. As a result of these risks, uncertainties and assumptions, you should in particular not place reliance on these forward-looking statements as a prediction of actual results or otherwise.

This report does not purport to contain all information that may be necessary in respect of the Company or its shares and in any event each person receiving this report needs to make an independent assessment. The Company undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this report.

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OMV Petrom Group in figures 2017



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