



Annual Report 2018

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OMV Petrom Group in figures

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 January 2017, OMV Petrom's Consolidated Income Statement has been restructured in line with industry best practice in order to better reflect the operations of the Group and enhance transparency for the users of the financial statements. For more information, please see OMV Petrom's Investor News published on April 6, 2017, which can be found on the company's website www.omvpetrom.com, section Investors › Investor News.

The energy for a better life

Every single day, OMV Petrom makes people's lives better.

Every single day, OMV Petrom produces and supplies the energy for millions of people - for their comfort, their need for mobility or the passion to travel.

Energy is part of our lives: fuel is the basis for mobility, gas is used for heating homes, and electricity powers the household appliances that make our lives easier. Behind all this stands the energy of OMV Petrom.

OMV Petrom leverages on industry's expertise in Romania, one of the first oil producing countries in the world. At the same time, the company successfully applies innovation and technical know-how to contribute to improving the quality of life.

We produce energy in all its forms: fuels, gas and electricity.

Safely. Securely. Responsibly.

Today and tomorrow.



FUELS



GAS



ELECTRICITY

An integrated energy company

OMV Petrom is the largest energy company in Southeastern Europe.

The company is active along the entire energy value chain: from exploration and production of oil and gas, to refining and fuels distribution, and further on to power generation and marketing of gas and power.

The company is organized into three operationally integrated business segments – Upstream, Downstream Oil, Downstream Gas. OMV Petrom's integrated business model provides financial resilience due to synergies and natural hedging against oil price volatility.

In Upstream, OMV Petrom is present in Romania and Kazakhstan.

Our expertise varies from deep onshore exploration to mature fields and shallow offshore production.

In 2018, our portfolio consisted of 532 mn boe proved (1P) reserves and around 58 mn boe hydrocarbon production (thereof 3.7 mn tons of crude oil and natural gas liquids and 4.8 bn cubic meters of natural gas).

In Downstream Oil, we operate 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.

We are present on the oil products retail market through a network of 794 filling stations located in Romania, Moldova, Bulgaria, and Serbia. These filling stations are operated under two brands: Petrom and OMV. In 2018, the Downstream Oil segment recorded 5.0 mn tons of refined product sales, of which 2.7 mn tons were retail sales.

In Downstream Gas, we are engaged in electricity production, and gas and power sales.

We operate the Brazi gas fired power plant, which has a capacity of 860 MWh.

In 2018, the Downstream Gas segment recorded gas sales volumes of 47.3 TWh (thereof 38.9 TWh to third parties), the equivalent of 4.4 bcm, and generated 3.8 TWh of electricity.

Every day, millions of people and thousands of businesses in Romania and in the region use our energy.

OMV Petrom's fuels and energy products enable mobility, provide heat for living and working, and form the basis for a variety of plastics and high-end petrochemical products used daily.

OMV Petrom has a long tradition of sustainable and responsible behavior in delivering energy with the purpose of improving people's lives.

Sustainability for OMV Petrom means creating long-term value for our customers and shareholders, while being an innovative company and an employer of choice.

We conduct our business in a responsible way, respecting the environment and adding value to the societies in which we operate.



Our business model

UPSTREAM



Onshore Oil
Exploration and Production



Onshore Gas
Exploration and Production



Offshore Oil and Gas
Exploration and Production

DOWNSTREAM GAS



Power Production



Power Marketing



Gas Marketing

DOWNSTREAM OIL



Refining



Storage Logistics



Transportation



Marketing of Oil
and Non-Oil Products

USAGE



Aviation



Agriculture



Cars



Constructions



Plastics



Chemicals



Electricity



Heating



Hospitality



Steel

Why invest in OMV Petrom

OMV Petrom is the largest energy company in Southeastern Europe and the largest Romanian company listed on the Bucharest Stock Exchange, with a market capitalization of EUR 3.6 bn at the end of 2018.

18.35% of OMV Petrom's capital is free float traded as shares on the Bucharest Stock Exchange and as GDRs on the London Stock Exchange.

The company has a leading position in the fuels and natural gas markets in Romania and an important contribution to the country's security of electricity supply.

OMV Petrom's success is based on its integrated business model, on operational excellence and on financial discipline, which are key in generating sustainable growth and attractive returns for our shareholders.

OMV Petrom also benefits from the expertise and international exposure of OMV, the majority shareholder with 51.01% of shares, an internationally active energy company based in Austria.

Since its privatization 14 years ago, OMV Petrom's story has been about transformation, restructuring and modernization. There has

been an enormous amount of change to get the best out of our assets, align ourselves with best practice and industry trends and be leaders in the way we develop our people.

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 its customers by enhancing their satisfaction and experience has been one of the company's prime objectives. Also, OMV Petrom considers its responsibilities to its employees and the environment to be a priority. To this end, the company has worked hard to lower the lost time injury rate and to consistently reduce its greenhouse gas emissions and water intensity.

The company confers 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.

After years of hard work that paid off, OMV Petrom has consolidated its position in the oil and gas market and has turned into an efficient business. We have come a long way during these years and our ambition is to go much further. We are proud of the strong and sound foundation we have built, which allows us to further create sustainable value for our stakeholders.

OMV Petrom is committed to deliver a competitive shareholder return throughout the business cycle, including paying a progressive dividend. We aim to increase our dividend each year or at least maintain it at the previous year's level, in line with the financial performance and investment needs, considering the long term financial health of the company.



From sound performance to attractive returns

CLEAN CCS OPERATING RESULT¹ (In 2017: RON 3.3 bn) RON 4.8 bn	CLEAN CCS NET INCOME ATTRIBUTABLE TO STOCKHOLDERS^{1,2,3} (In 2017: RON 2.5 bn) RON 3.7 bn	NET INCOME ATTRIBUTABLE TO STOCKHOLDERS² (In 2017: RON 2.5 bn) RON 4.1 bn
CASH FLOW FROM OPERATING ACTIVITIES (In 2017: RON 6.0 bn) RON 7.4 bn	CAPITAL EXPENDITURE (In 2017: RON 3.0 bn) RON 4.3 bn	TOTAL DIVIDENDS (In 2017: RON 1.1 bn) RON 1.5 bn⁴
FREE CASH FLOW AFTER DIVIDENDS (In 2017: RON 2.7 bn) RON 2.0 bn	CLEAN CCS ROACE^{1,3} (In 2017: 9.8%) 14.3%	DIVIDEND PER SHARE (In 2017: RON 0.020) RON 0.027⁴
PAYOUT RATIO (In 2017: 45%) 38%⁴	DIVIDEND YIELD⁵ (In 2017: 7%) 9%	TOTAL SHAREHOLDER RETURN⁶ (In 2017: 15.3%) 11.5%

All values refer to 2018, unless otherwise stated.

¹ Adjusted for exceptional, non-recurring items; Clean CCS (current cost of supply) figures exclude special items and inventory holding effects (CCS effects) resulting from Downstream Oil; starting with 2017, special items include temporary effects from commodity hedging (in order to mitigate Income Statement volatility);

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

³ Excludes additional special income from a legal dispute reflected in the financial result;

⁴ Dividend subject to GMS approval on April 19, 2019;

⁵ Calculated with the share prices at the end of the previous year;

⁶ Calculated with previous year DPS.

We are the largest private investor in Romania, the largest energy company, the biggest taxpayer and one of top 3 private employers. We are aware of the important role we play in the economy and responsible behaviour is deeply embedded in our company's culture.



Company

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FUELS



GAS



ELECTRICITY

Statement of the Chief Executive Officer

Dear Shareholders,

Being at the helm of OMV Petrom since May 2018, I can look back at a truly eventful year. I am very grateful to all my Board member colleagues and everybody at OMV Petrom for the warm welcome and great support during the year.

In terms of the external environment, sector fundamentals remained largely supportive with commodity prices continuing their upward trend, partially offset by refining margins moving downwards. Romania's economic growth slowed down in 2018, to 4.1% from 7.0% a year earlier, but the pace of economic expansion remained one of the highest in the EU. Domestic consumption continued to be the main engine of growth, supported by public sector and minimum wage increases in excess of productivity gains, but to a lesser extent than in 2017. Against this backdrop, we were faced with a challenging domestic regulatory and fiscal environment, impacted, starting from Q4/18, by the gas price cap introduced via the Emergency Government Ordinance no. 114, and by the supplemental taxation stipulated in the Offshore Law.

For the full year 2018, we delivered an excellent performance, with Operating Result of RON 5.2 bn supported by ongoing cost optimization and by reversal of impairments. The operating cash flow reached RON 7.4 bn. We delivered on our promise to increase CAPEX, with cash outflow for investments being up by 74% yoy, to RON 4.3 bn. We also paid higher dividends of RON 1.1 bn for the financial year 2017, an increase of 33% compared to the previous year. Our free cash flow after dividends reached RON 2 bn. In addition, our balance sheet remained solid with cash reserves of RON 5.6 bn at the end of 2018, 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, in **Upstream** we benefited from better realized prices and lower total production costs, lower depreciation and exploration expenses, on aggregate offsetting the impact of production decline. As a result, the



Clean Operating Result almost doubled compared to 2017. We made progress towards simplifying our footprint by signing the transfer of another nine marginal fields to Mazarine Energy, on top of the 19 fields which had already been transferred in 2017. We drilled 110 new wells and sidetracks, performed around 1,000 workovers and we brought our currently top producing oil well into production following a successful offshore campaign.

In **Downstream Oil**, we invested in the following major projects: the Petrobrazi refinery turnaround (a EUR 45 mn financial effort that allows us to enter an extended four-year cycle between turnarounds), the Polyfuel project and the fuel storage modernization. The Clean CCS Operating Result reflected our very good sales performance, partly compensating the impact of the refinery turnaround in Q2/18, and the lower refining margins.

The **Downstream Gas** result significantly increased, reflecting the optimization of products and clients, as well as the improved performance of the power business, supported by higher availability of the Brazi power plant.

Based on the results and strong free cash flow, the Executive Board proposed a gross

Sector fundamentals remained largely supportive; domestic regulatory and fiscal environment became more challenging

Cash outflow for investments at RON 4.3 bn, 74% higher vs. 2017

dividend of RON 0.027/share for the 2018 financial year, up 35% from the previous year and representing a 38% payout ratio. The proposal was approved by the Supervisory Board and is subject to approval by the GMS on April 19, 2019.

Our free float remained at 18.35% during the past financial year. The stock price and trading volumes had developed positively until the beginning of November, the maximum share price of the year being 38% higher than the 2017 closing price. The Emergency Government Ordinance no. 114 was approved in December, causing OMV Petrom's share price to decline abruptly, as did the entire Bucharest Stock Exchange. Nevertheless, OMV Petrom's share price finished the year on an upward trend, at RON 0.2990, and outperformed the BET index by 9.3 percentage points. The total shareholder return (including the dividend of RON 0.02/share for the 2017 financial year) was 11.5%. Stock liquidity improved in 2018, with average daily traded value at RON 4.02 mn (EUR 0.86 mn), up 52.2% yoy in RON terms (excluding the accelerated book building transaction in September 2017).

We also made further progress towards the implementation of our strategic objectives. In 2018, we continued to **enhance competitiveness** across all business segments. In the Upstream segment, we continued the streamlining of our producing assets portfolio, modernized an additional 20 facilities, improved the Mean Time Between Failures (MTBF) indicator in Romania to 700 days, and ramped up drilling activity to maximize economic recovery. In Downstream Oil, we completed or advanced with several key projects that allow us to increase refinery flexibility, while maintaining a fuel and loss ratio below 9%. In Downstream Gas, we focused on capturing the highest integrated operational value, and generated the highest net electrical output since the Brazi power plant started operations in 2012, capitalizing on the favorable market conditions. Under the second strategic pillar – **developing growth options** – the assessment of the commercial and economic viability of the

Neptun Deep project continued. In Downstream Oil, we completed the mechanical works for the Polyfuel plant. We also finalized the pilot phase of MyAuchan convenience stores in 15 Petrom branded filling stations, and we are targeting the further expansion of the partnership. As for the third strategic pillar – **regional expansion** – we continued the assessment of growth opportunities in selected core regions.

Looking ahead to 2019, we aim to maintain the production decline to approximately 5% compared to 2018, excluding portfolio optimization. We remain strongly committed to develop our key growth project, Neptun Deep; thus we will continue the dialogue with the authorities to understand the way forward, to have all key requirements in place (regulatory framework, fiscal stability, competitive terms, liberalized gas market and key infrastructure). Over the last two years we have been ramping up investments and our plan was to continue this. However, in the recent period, we have seen higher fiscal and legislative volatility. The need to understand the investment climate has caused us to revisit our investment plans in terms of size and pace. As such, we plan CAPEX of around RON 3.7 bn for 2019, reduced by 14% yoy. For the 2019-2021 period, we are committed to achieving a positive free cash flow after dividends, maintaining a strong balance sheet, and continuing to offer an attractive progressive dividend to our shareholders.

Let me take the opportunity to thank all our shareholders, other stakeholders and employees for your trust and continuing support over the past year and ensure you that we take our greatest effort to enhance OMV Petrom's value as well as the overall contribution to the countries we operate in.



Christina Verchere

We are targeting the further expansion of our partnership with Auchan

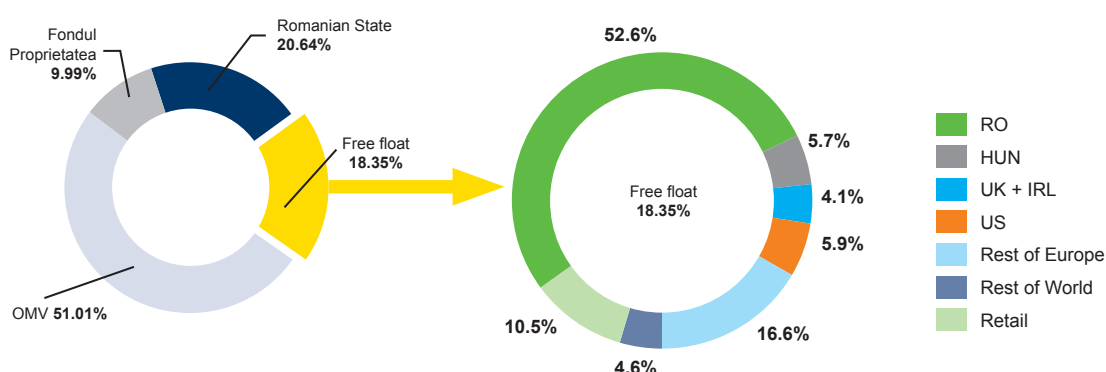
2019 CAPEX resized at RON 3.7 bn, down 14% yoy

OMV Petrom on the capital markets

Shareholder structure

At the end of 2018, OMV Petrom S.A. had the following shareholding structure: 51.0105% – OMV Aktiengesellschaft, 20.6389% – Romanian State (via the Ministry of Energy), and 9.9985% – Fondul Proprietatea S.A. The remaining 18.3521% 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 2018, 510 legal entities from Romania and abroad held 89.5% of the free float shares or 16.4% of OMV Petrom share capital, with the remainder (10.5% of the free float or 1.9% of capital) being held by around 455,000 private individuals.



A higher share of our free float held by Romanian institutional shareholders

An analysis of our shareholder structure, as at the end of 2018, shows that 52.6% of the free float was held by Romanian institutional shareholders (2017: 48.1%), 10.5% by retail investors (2017: 11.4%), 5.7% were Hungarian institutional investors (2017: 6.9%), 4.1% were from the UK and Ireland (2017: 5.0%), 5.9% were from the USA (GDR component included in this category) (2017: 5.2%), 16.6% were from other European countries (2017: 17.6%), and 4.6% were from rest of the world (2017: 5.7%).

Shares

During 2018, OMV Petrom share price and trading volumes were significantly influenced by news related to sector regulations, such as the Offshore Law (approved in the Parliament in October) and the Government Emergency Ordinance no. 114 (issued in December). On December 19, 2018, the share price declined by 13%, which was the year's largest daily depreciation. Furthermore, on December 21, 2018, the OMV Petrom share price reached the **lowest level** for trades on the Regular market, RON 0.2800.

The share price ranged between RON 0.28 and RON 0.3955

On the ex-dividend date May 24, the share price corrected by 5.7%, less than the equivalent of 2017 dividend per share of RON 0.02. The share price did not recover by the end of the month, in the context of domestic uncertainties regarding the Pillar II private pension funds and international pressures on the oil price. Consequently, the OMV Petrom share price declined by 10.7% mom in May, while the BET index decreased by 7.3% mom.

With the exceptions above, the stock price and trading volumes had largely a positive evolution until the beginning of November. The **maximum share price** in the year of RON 0.3955 was reached on November 7 and the **highest daily traded volume** of 141.3 mn shares was registered on November 9.

The 2018 **average OMV Petrom share price** for trades on the Regular market was RON 0.3351, 11.3% higher than the 2017 figure of RON 0.3011, while the average Brent oil price increase was of 32% yoy. The **average daily traded volume** was

11.8 mn shares (8.8 mn in 2017 including Deal trades, but excluding the ABB transaction), up 33.7% yoy, while the **average daily traded value** was RON 4.02 mn, up 52.2% yoy in RON terms. The 2018 average traded value in EUR terms was EUR 0.86 mn.

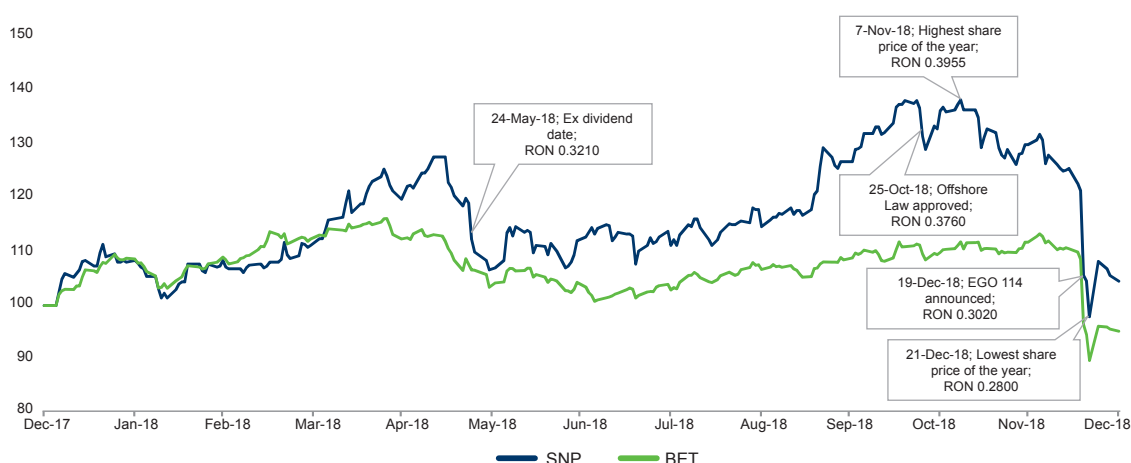
Domestic indices were more volatile in 2018 than in 2017. The **BET index** closed the year in negative territory, decreasing by 4.8% yoy, mostly due to its 14.8% mom decline in December, the highest in the European emerging markets region. The **BET TR (total return BET)** appreciated 4.3% yoy in 2018, saved by the high dividend yields

offered mostly by the majority state owned energy companies. The **BET-NG index** (comprising stocks in the energy and utilities sectors) in which OMV Petrom S.A. has a weight of around 30%, decreased by 7.4% yoy. The **BET-BK index** (designed as a benchmark for asset managers and institutional investors) declined by 11.6% yoy.

Outperforming the BET index by 9.3 pp, the OMV Petrom share price managed to end the year with an upward trend, **at RON 0.2990**, 4.5% higher yoy. **The total shareholder return** (including the dividend of RON 0.02/share for the 2017 financial year) **was 11.5%**.

OMV Petrom share price outperformed the BET index by 9.3 pp. Total shareholder return at 11.5%

OMV Petrom share price (SNP) and BET performance 2018
29 December 2017 = 100



OMV Petrom S.A. **market capitalization** at the end of 2018 was RON 16.9 bn or EUR 3.63 bn, accounting for around 12% of the total market capitalization of the companies listed on the BSE

and for 24% of the capitalization of the BET index (representing the 15 most liquid blue-chip stocks listed on the BSE).

OMV Petrom S.A. share symbols

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

At a glance

	2018	2017	Δ (%)
Number of shares (mn)	56,644.1	56,644.1	0
Market capitalization (RON mn) ¹	16,937	16,200	5
Market capitalization (EUR mn) ¹	3,631	3,477	4
Year's high (RON)	0.3955	0.3365	18
Year's low (RON)	0.2800	0.2775	1
Year end (RON)	0.2990	0.2860	5
EPS (RON/share)	0.0720	0.0440	64
Dividend per share (RON)	0.027 ²	0.020	35
Dividend yield (%) ¹	9.0	7.0	29
Payout ratio (%) ³	38	45	(18)

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 19, 2019;

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

Global Depositary Receipts (GDR)

The **GDR price on the last day of trading** in 2018 was **USD 11.30**, translating into a 3.2% yoy increase. In 2018, the GDR price ranged between a USD 10.95 **low** (on January 2) and a USD 14.40 **high** (on October 24).

In total, 751,171 GDRs were traded in 2018, up 141.7% yoy, while the **daily average number of GDRs** was 2,969, up 142.6% yoy.

The **highest monthly trading volume and value** was reached in August (211,963 GDRs, worth of USD 2.57 mn), while the lowest in March (no trades). **The total value of GDRs traded** in 2018 was USD 9.5 mn, significantly up yoy (181.3%).

9,039 GDRs were issued and 839,409 GDRs

were cancelled in 2018 (**net cancellations** 830,370 GDRs). The **number of GDRs outstanding** at the end of each month ranged between 1,051,092 (in January) and **237,922 (in December)**. The latter figure represents 9.5% of the GDRs issued in the October 2016 Secondary Public Offering and 0.3% of the free float.

In 2018, most of the indices on both the European and US exchanges had a downward trend: the DAX decreased by 18.3%, FTSE 100 by 12.5%, STOXX Europe 600 by 10.2%, while the FTSE Global Energy Index, comprising the world's largest oil and gas companies, decreased by 17.1%. Dow Jones Industrial average fared better, with only a 5.6% yoy decline, while STOXX Europe 600/Oil & Gas closed flat yoy.

Value of GDRs traded significantly higher yoy

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 2018, OMV Petrom S.A. held a total number of 204,776 own shares, representing 0.0004% of issued share capital. In 2018, OMV Petrom did not buy back or cancel any Treasury shares.

Investor Relations activities

During 2018, the Company's top management and the Investor Relations (IR) team had an active presence on the local and foreign capital markets, via attending analyst and investor conferences and non-deal road shows, locally as well as across Europe and North America. The high level of accessibility for investors and analysts was maintained also through regularly organized meetings and conference calls.

Furthermore, OMV Petrom IR improved interaction with financial market participants by continuing its **quarterly mini-surveys** aimed at identifying analysts' perception of the Company in terms of its strengths, weaknesses, and areas of misunderstanding. The **quarterly Trading Update of Key Performance Indicators (KPIs)** also proved a key tool for analysts and investors in the early understanding of OMV Petrom's key trends. As part of the quarterly reporting package, OMV Petrom continued publishing a **Factsheet** as well as the Questions and Answers section of the quarterly conference calls on its corporate website: www.omvpetrom.com.

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 Investors section on the Company's website.

Analyst coverage of OMV Petrom shares

The research coverage by sell-side analysts remained constant. BT Capital Partners and Renaissance Capital initiated coverage, while two local brokerage houses (IEBA Trust and BRD Groupe SG) ceased their coverage on OMV Petrom.

At the end of 2018, **OMV Petrom stock was**

covered by eight analysts, of whom six (or 75%) had "Buy" or equivalent ratings (end of 2017: 75%), and of whom two (or 25%) had "Hold" or equivalent ratings (end 2017: 25%). There were no analysts with "Sell" ratings. **The median target price (TP)** according to analyst consensus estimates was RON 0.4420 (translating into a 47.8% upside potential compared to the share price of RON 0.2990 on the last day of trading in the year). This compares to a median TP of RON 0.3625 as at end 2017.

Analysts' median TP higher 22% yoy

Dividends

The Supervisory Board has approved the Executive Board's proposal to the Ordinary GMS to distribute a gross dividend per share of RON 0.027 for the year 2018. This translates into a total cash outflow of RON 1,529 mn, a payout ratio of 38% of the Group's 2018 net profit attributable to stockholders of the parent (2017: 45%), or 49% of the Group's 2018 free cash flow (2017: 32%), which is in line with the current dividend policy of a progressive dividend. The 2018 dividend proposal is subject to the approval of the forthcoming Ordinary GMS on April 19, 2019.

Gross DPS proposal at RON 0.027/share offers an attractive yield of 9%

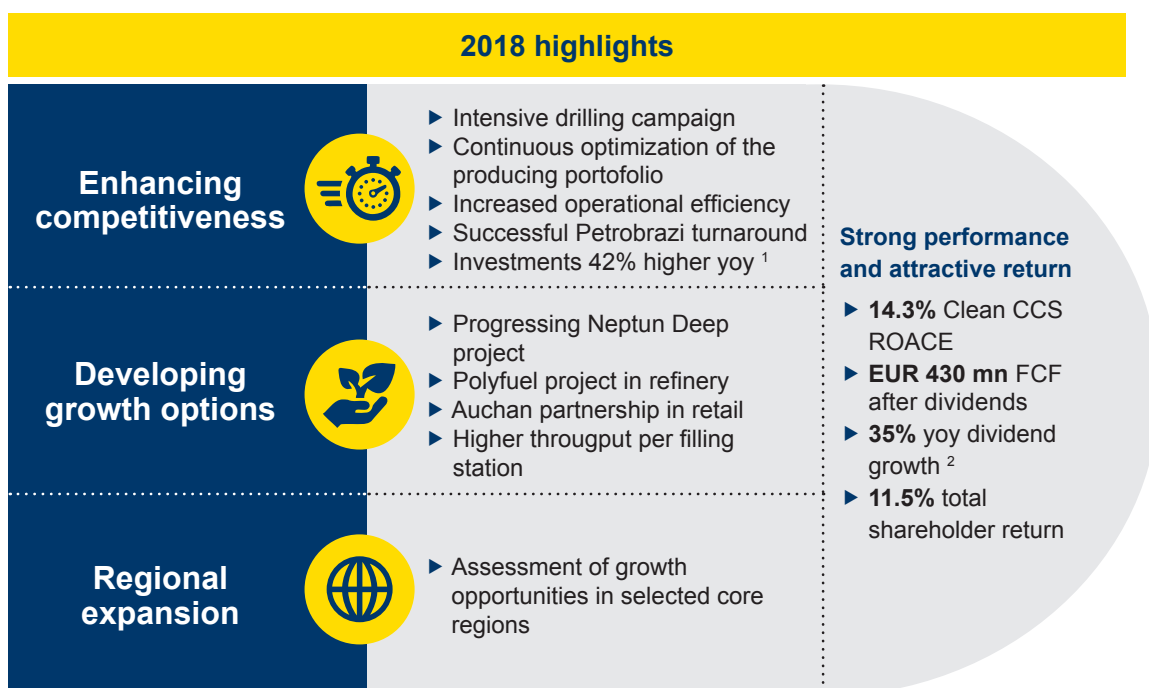
Dividend policy

In April 2018, we amended our dividend policy. OMV Petrom is committed to deliver a competitive shareholder return throughout the business cycle, including paying a progressive dividend. We aim to increase our dividend each year or at least maintain it at the previous year's level, in line with the financial performance and investment needs, considering the long term financial health of the Company.

OMV Petrom continues its journey to long-term success, being responsible for producing and delivering the energy for a better life for millions of people. We remain committed to delivering on our promises, strengthening our position as a **leading integrated regional player**, with the underlying ambition **of offering an attractive return to**

our shareholders. We will achieve this by sustainably exploring opportunities in Romania, steadily pursuing regional growth, and constantly enhancing our offer and customer experience.

Good progress in implementing our strategy was achieved in 2018.



¹ Calculation based on EUR figures;

² Dividend subject to GMS on April 19, 2019.

The first multilateral horizontal offshore well added as top oil producer in 2018

Our relentless efforts to **enhance the competitiveness of our existing portfolio** led us to remarkable results in all business divisions in 2018. Pursuing the value-over-volume approach in all our areas of activity, driving competitive advantage, becoming a more agile and efficient organization, and being attractive to business partners were the priorities of the company.

The strategic priorities for Upstream remain **maximizing profitable recovery** and **streamlining the portfolio**. To extend the lifetime of the oil and gas reservoirs and ensure the

security of the energy supply, drilling activities were intensified and technological, innovative solutions were tested and applied by our experts. 110 new wells and sidetracks were drilled, 59% higher yoy, including deep and complex, high impact exploration wells. We have successfully completed the shallow offshore drilling campaign, adding the first multilateral horizontal offshore well as top oil producer to our portfolio. An investment of approximately EUR 30 mn translated into a significant contribution to production of approximately 1,300 boe/day on average for 2018. The gas well 4317 Mamu, drilled to a depth of

approximately 4,400 meters, started production in Q4/18 and added more than 1,200 boe/day to the daily average production. The drilling results, together with the implemented enhanced recovery techniques, such as water and polymer injection, will help reach the strategic targets of ultimate recovery rates of 28% for oil and 55% for gas.

Our portfolio optimization program advanced in 2018 with the agreement for the transfer of nine marginal fields to Mazarine Energy Romania as part of the second divestment round. These fields are located in the Moinești Zemeș region and represent less than 1% of OMV Petrom's current production. The transfer of these fields became effective as of March 1, 2019. The portfolio optimization program continues with the target of further 40 – 50 marginal fields to be divested. This will lead to the simplification of our operational footprint, enabling us to concentrate our efforts on the fields which generate most value.

Our commitment to **operational excellence** in Upstream remains the main driver for the implementation of projects, resulting in EUR 31 mn savings in 2018. The Energy Efficiency program, a sustainable contributor to decreasing greenhouse gas emissions, accounted for substantial cost reductions last year. The insourcing of special services such as the slickline, sand control and packers activities, and the acquisition of Rig 200, a high performance 200 metric tons rig, the largest in our heavy workover fleet, will ensure major savings as well. The Total Productive Maintenance concept, for which implementation started in 2018, will result in multi-million euro savings and a positive evolution of surface equipment reliability indicators. After reaching the targeted goal of more than 600 days Mean Time Between Failures (MTBF) in 2017, the key success factors enabling this result were monitored and further improved, thus leading to a record of 700 days MTBF at the end of 2018, directly linked to lower well intervention costs. All these projects have been developed to sustainably support a competitive cost base.

At the end of 2018, approximately 70% of our production surface facilities were modernized /

automated and 5,000 oil, gas and injection wells were automated, representing more than 50% of our active wells portfolio. Our target is to reach an automation level of around 90% for both wells and facilities by 2025.

OMV Petrom's main performance milestone in Downstream Oil was the execution of the **45-day Petrobrazî refinery turnaround**, a EUR 45 mn project covering modernization and maintenance works. This marked the beginning of a four-year cycle between turnarounds, an achievement which secures important benefits in terms of costs generated by the shutdown / restart of the refinery and the disruption in production. 5,000 workers were involved in the activities, 3,720 pipes and 9,300 pieces of instrumentation equipment were inspected, and 2 million man-hours were recorded without any significant incidents and lost time injuries.

Maintaining cost discipline, implementing digital technologies, and developing energy efficiency projects were our focus areas for 2018 in Downstream Oil as well. The results achieved position us as a competitive refining business in the region and underpin our efforts to further improve our operational performance to international benchmarks. In this context, we reached an 85% utilization rate reflecting the turnaround, and maintained the fuel and loss ratio below 9% in 2018.

As regards the fuel storage network, we achieved mechanical completion at our Arad terminal at the end of the year, with the target to ensure the depot's operational start in the first half of 2019. Consequently, with the modernization of the last depot, we will ensure a higher efficiency level of supply with six depots. Furthermore, we are working to maximize availability and increase flexibility across the supply chain.

In Downstream Gas, consolidating our **leading position on the Romanian gas market** remains our strategic long-term goal, while we continue to be an important player on the Romanian electricity market. As such, in 2018, we achieved 47.3 TWh gas sales volumes and 3.8 TWh net

Petrobrazî refinery
turnaround completed
on time and on budget

Arad terminal
modernization close to
completion at year end

electrical output. Gas and electricity sale is part of our core business; to complement our product offer, we made progress on creating a services portfolio to bring additional value to our customers. By providing energy solutions, we increase the competitiveness of our offer. Currently, we are assessing opportunities in the new environment created by the latest fiscal and regulatory changes without deviating from the value over volume approach to ensure strong and sustainable operations.

Regarding the second strategic pillar – **developing growth options** – the assessment of the commercial and economic viability of the **Neptun Deep project** continued. All pre-requisites – regulatory framework, fiscal stability, competitive terms, liberalized gas market and key infrastructure – have to be in place to enable the development of any gas investment of Neptun Deep scale. If commercially viable, the Neptun Deep project will be a key contributor to our RRR target.

The construction of the **Polyfuel plant** in the Petrobrazi refinery has progressed as expected. Mechanical works are completed and the unit will be operational in March 2019. The plant, an investment of approximately EUR 65 mn, represents the first of its kind for the OMV Group and will employ a 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, maximizing sales and enhancing customer experience are our strategic goals. Thus, in 2018, we continued to execute our dual brand strategy in Romania. For the Petrom brand, our objective is to consolidate our **“value for money”** positioning. The partnership with Auchan Retail Romania that started in 2017 continued throughout 2018, with 15 convenience stores running under the myAuchan brand, as a pilot project. We are looking to extend this partnership in the future, following the encouraging results of the pilot. In addition, consumer incentive

promotions have been successfully implemented to attract a greater number of younger drivers to our filling stations. In 2018, we also celebrated together with our customers Romania’s 100 years Grand Union Anniversary.

Under the OMV brand, with its **“high quality leader”** positioning, we offer a comprehensive range of high-quality products and services. With the launch of OMV MaxxMotion, we have developed high-performance, high-quality fuels, which have enabled us to achieve market leadership. In 2018, we continued to focus on communicating the unique benefits of OMV MaxxMotion Performance Fuels: prolonging the life of the engine and, at the same time, maximizing its performance. Furthermore, we continued to improve our non-oil offer, building on the VIVA experience through gastro and coffee novelties.

The **throughput per filling station of 5.03 mn liters** in Romania in 2018, an increase from 4.95 mn liters in 2017, stands as a testimony of our progress in this area.

In Upstream, the assessment of **regional expansion** opportunities in the areas of interest continued in 2018. This will be a source of inorganic growth for the company and will strengthen OMV Petrom’s position among international oil and gas industry players in our region.

In Downstream Gas, we maintain our strategic direction of becoming a regional player. This heavily depends on a Final Investment Decision for the Neptun Deep project.

The progress of our strategy’s implementation is measured by the financial targets we have established. EUR 922 mn were spent as CAPEX, EUR 248 mn were distributed to our shareholders as dividends, EUR 430 mn was the free cash flow after dividends, and 14.3% Clean CCS ROACE was reached at the end of the year.

The three strategic enablers - *People and Organizational Culture, Sustainability, and Technology and Innovation* - support the

The Polyfuel plant to lead to a more flexible refinery production structure

Clean CCS ROACE up 4.5 pp yoy to 14.3%

implementation of the strategy and ensure the long-term success of the company.

With team spirit, accountability, passion, pioneering spirit and performance, we achieve our objectives in order to build a successful future. Our priorities for the **People and Organizational Culture** enabler are: inspiring leaders – building high performing diverse teams, performance-focused and principle-led behavior, organizational agility and excellence, and a great place to work for employees.

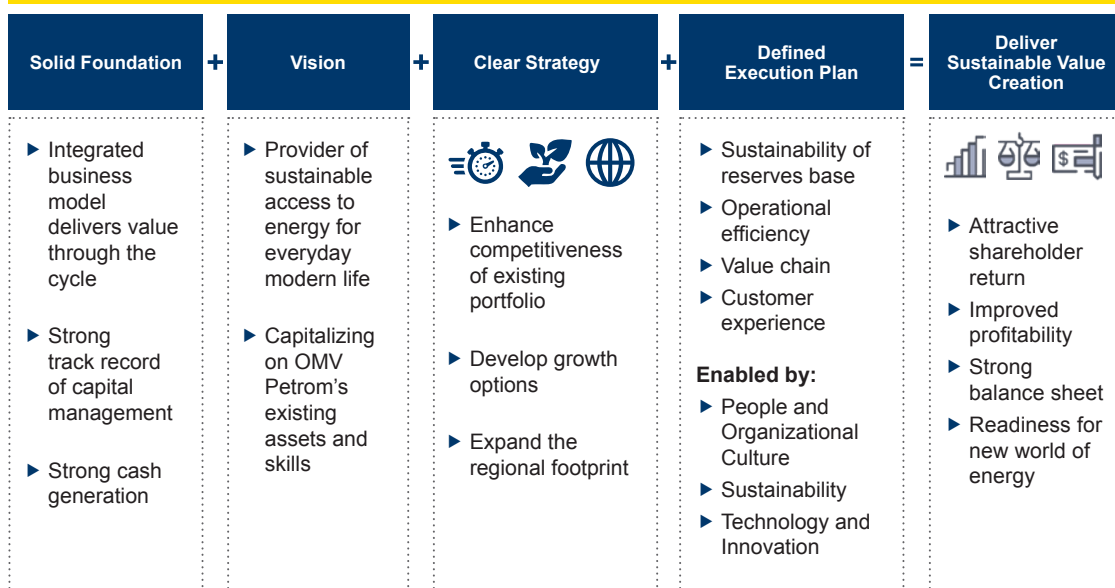
We focus on conducting business responsibly, efficiently and in an innovative way. Making the business even more profitable and sustainable is our goal for the future. We are committed to creating long-term value for the company and our

stakeholders, while respecting the environment, supporting the communities in which we operate, and striving to support the UN sustainable development goals. HSSE, carbon efficiency, employees, business principles and social responsibility, as well as innovation are our pillars of the **Sustainability** enabler.

The ambitious objectives set in our strategy 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 **Technology and Innovation** strategic enabler has the following priorities: make existing business more competitive, develop growth options, and create a more agile and efficient organization.

Technology and Innovation - a key enabler

Our path to long-term success



Global macroeconomic and sector trends

The world economy advanced by 3.7% in 2018, marginally down from the previous year. Growth in advanced economies decelerated to 2.3%, reflecting a persistent decline from the above-trend levels. A notable exception has been the US economy, which recorded strong growth in 2018, expanding by 2.9%, largely supported by the pro-cyclical fiscal stimulus. In Japan, economic growth stood at 0.9%, less than half the rate recorded in 2017, mainly due to the impact of natural disasters and extreme weather conditions. Growth in the Euro area dropped to 1.8% from 2.4% a year ago, as negative effects coming from a slowdown in external demand were compounded by several country - and sector - specific factors. Feeble domestic private consumption and weakening industrial production, triggered by the introduction of revised auto emission standards, lowered Germany's economic growth to 1.5%. Other large Eurozone economies such as Italy and France were both impacted by lower domestic demand, increasing by only 1% and 1.5% respectively. In the UK, persisting uncertainty over the Brexit deal pushed down economic growth to 1.4% in 2018, the lowest rate since the financial crisis. Overall, the global trade momentum decelerated in the second half of 2018 as trade tensions between the USA and China maintained high uncertainty levels. While the postponement of additional tariff increases by the two countries sent a positive signal at the end of 2018, the tariffs in place already had a negative impact on China's economic growth. Global financial conditions remained, largely, accommodative despite policy rate raises in countries such as the USA, Russia, Mexico or Indonesia. At the end of the year, the European Central Bank ended its net asset purchases, which provided ample liquidity to banks and the economy, but it pledged that monetary policy will remain supportive of economic growth in the near future.

Consumer price inflation in advanced economies continued its ascending trend, rising to 2% in 2018. Annual inflation in the OECD area slowed down markedly in the last quarter of the year, reaching 2.4%, as moderate wage growth continued to keep subdued inflationary

expectations. Easing energy prices in the last months of the year helped to push down energy price inflation in a large number of economies. In the USA, annual inflation nudged further up to 2.4% partly as a consequence of the introduction of tariffs. Eurozone headline inflation rose marginally to 1.7% amid high levels of capacity utilization and a mild increase in labour cost pressures.

In 2018, **total global oil demand** rose by 1.3% compared to 2017 to 99.2 mn bbl/d. In absolute volume terms, the largest increase, by almost 0.9 mn bbl/d, came from Asia, followed by the Americas with 0.5 mn bbl/d. Oil demand growth in Europe remained stagnant, impacted by German diesel demand, which fell due to concerns about pollution and the falling resale value of diesel vehicles. The new European Union (EU) certification requirements, introduced in September, led to a drop in car sales towards the end of the year in several EU countries. Total oil demand rose in both China and India, by 3.8% and 4.7% respectively, led by increased volumes of LPG, naphtha and diesel oil. **Global oil supply** stood at 99.9 mn bbl/d, a hefty 2.5% increase compared to 2017, driven to a large extent by the significant increase in the US shale oil production. These gains propelled the US oil production to a record 10.88 mn bbl/d and helped it become the world's top oil producer in 2018. The existing global oversupply triggered a renewed response from OPEC and other major oil producers, led by Russia, which, in December, agreed once again to cut oil production by 1.2 mn bbl/d. As during the previous agreements, Saudi Arabia bore the brunt of the production cut, while Iran, along with Venezuela and Libya, were exempt from the deal.

Oil prices gained steadily in the first three quarters of 2018 due to strong compliance by the members of the Vienna Agreement, a relatively strong oil demand growth and the reintroduction of sanctions for Iran. In the last quarter of the year however, oil prices dropped abruptly, as US production growth soared, supplies from OPEC and Russia returned to the market and fears of a retrenchment in global economic growth started to build up. The net long positions in Brent crude futures dropped throughout the year by some

Euro area growth slowed down due to country - and sector - specific factors

Oil prices dropped abruptly in Q4/18

400 mn bbl to around 180 mn bbl at the end of 2018. Overall, however, the average Brent oil price continued to recover in 2018, increasing by 31.6% yoy to USD 71.3/bbl. In 2018 the average Urals price was USD 70.1/bbl, 31.7% higher compared to 2017. The average spread between Brent and Urals oil prices increased by 24.7% yoy at USD 1.2/bbl.

Romania - macroeconomic and sector trends

Official preliminary estimates showed that Romania's GDP rose by 4.1% in 2018, lower than the beginning of the year benchmark government projection of 5.5%. Although growth remained robust, when compared to that of the other economies in the EU, the falling pace of private consumption impinged negatively on the overall growth figure. Broadly, the composition of economic expansion is expected to be fairly stable, with agriculture's contribution to economic growth likely to be higher than in 2017. Households' purchasing power continued to climb in 2018 as average annual real wages increased by 8.4%, with nominal wage gains outpacing inflation by a large margin once again. A tight labor market, increased skill mismatches, and an additional boost in the minimum wage levels continued to push up nominal wages. Wages in the public sector, in particular, maintained their rapid pace of growth, preserving the wide differential between them and the level prevailing for the average economy. In 2018, consumer confidence improved marginally, before starting to deteriorate towards the end of the year.

After the robust performance recorded in 2017, annual industrial production growth slowed down to an estimated 3.5% in 2018, which was in line with the industry trends observed across Europe's largest economies. Once again, manufacturing was the main driver of growth, while the contribution of mining and quarrying was more muted. Despite the increase in households' purchasing power, the demand for new dwellings continued to fall in 2018. Overall, the volume of activity across the construction sector dropped by 2.5% as the sector's recovery kept dragging on.

The diminished pace of private consumption growth failed to stem the deepening of the trade

balance deficit. Import growth continued to outpace export growth, widening the trade deficit by 17% compared to 2017, to the equivalent of -8% of GDP. As a consequence, the current account deficit widened even further, to the equivalent of -5% of GDP, from -3.3% a year before, increasing the need for additional financing. Net foreign direct investments were marginally higher in 2018, reaching EUR 4.9 bn, a more substantial expansion of these being discouraged by the heightened fiscal and legislative uncertainty.

The fiscal policy became more unpredictable in 2018. At the end of December, the Government issued an emergency ordinance (EGO no. 114), which envisaged a range of measures that alter the domestic free price mechanisms in both energy and financial markets. Specifically, the emergency ordinance put a cap on domestic gas and regulates power prices, while introducing an additional financial contribution for companies operating in the energy sector. Another measure was the introduction of a bank assets tax, linked to the level of ROBOR. Apart from being the highest tax of this kind in Europe, its mechanism negatively impacts the functioning of the domestic monetary policy. On a cash basis, the budget deficit was kept just under the Maastricht criteria of -3% of GDP. Yet this performance was achieved by postponing some government spending. The net budget deficit for December 2018 amounted to -0.1% of GDP when the average figure for the last four years, for the same month, was -1.9% of GDP.

At the end of 2018, **annual average Consumer Price Inflation (CPI)** reached 3.3%, as lower oil prices helped push down inflation in the last quarter of the year. In 2018, monetary policy became slightly more restrictive, with benchmark interest rate rising to 2.5% from 1.75% at the end of 2017.

The monthly volatility in the RON/EUR exchange rate fell to its lowest level in 2018. On average, the RON fell against the EUR by 1.9%, but rose against the USD by 2.8%.

In 2018, the growth rate of Romania's **energy supply** continued to increase, albeit at a slower pace when compared to 2017. It went up by

Current account deficit widened at -5% of GDP

Emergency Government Ordinance no. 114 introduced measures impacting several sectors

0.9%, to 34.6 mn toe due to the increase in imports.

The total supply of oil, gas, and power was higher, but that for coal and oil-related products

fell compared to 2017. Domestic production for both oil and gas fell marginally by -1.4% and -0.5% respectively. Oil imports increased by 6.6%, or 0.5 mn toe, while gas imports rose by 27% or 0.25 mn toe.

Business segments' operational performance

Upstream

At a glance ¹

	2018	2017	Δ (%)
Segment sales (RON mn) ²	9,742	8,217	19
Operating Result (RON mn) ³	3,531	1,661	113
Special items (RON mn)	306	(13)	n.m.
Clean Operating Result (RON mn)	3,224	1,674	93
Operating Result before depreciation (RON mn)	5,606	4,323	30
Capital expenditures (RON mn)	3,150	2,435	29
Exploration expenditure (RON mn)	466	235	98
Total Group production (mn boe)	58.30	61.18	(5)
thereof in Romania (mn boe)	55.82	58.63	(5)
Sales volumes (mn boe)	54.3	57.8	(6)
Production costs (OPEX in USD/boe)	11.18	10.90	3
Proved reserves as of December 31 (mn boe)	532	566	(6)
thereof in Romania (mn boe)	509	542	(6)

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 36-47;

² Including inter-segment sales;

³ Excluding intersegmental profit elimination.

HSSE is our first priority

On our journey towards HSSE Vision "Zero Harm – No Losses", we have been able to record a second consecutive year with no work related fatalities in Romania.

Tragically, in Kazakhstan one employee and two contractors lost their lives in a single event, while performing a well operation. We took immediate action and implemented measures to prevent such an incident from occurring again.

The Lost-Time Injury Rate (LTIR) (employees and contractors combined) stood at 0.48, above the international benchmark.

We are committed to achieving a sustainable culture of safety, where it is common to proactively identify hazards and at-risk behaviors in work places and to exchange information openly and without fear. Improvement of Safety Culture aims to increase organizational, environmental and individual characteristic performance factors influencing behavior at work in a way in which

everyone understands and demonstrates his/her HSSE responsibility as a core value.

Romanian Upstream operations

Exploration

2018 was an active year, with focus on drilling high impact, complex and deep (>4,000 m) exploration wells (such as 6600 Băicoi and 4461 Totea South). A significant event of the year was the take-over of Repsol's interest in all four joint operating agreements in October 2018.

On December 21, 2018 the Romanian Government granted the extension of the exploration licenses for Block XIX Neptun (Black Sea, Offshore).

In 2018, seven exploration wells were drilled in our portfolio. Five wells were operated by OMV Petrom. The status of these wells at the end of 2018 was as follows:

- ▶ two wells in experimental production;
- ▶ one well in testing phase;
- ▶ one well suspended and waiting for testing;
- ▶ three wells plugged and abandoned.

Focus on high impact, complex and deep exploration wells

Offshore production at 17.4% of Romanian hydrocarbon production

Production

At the end of 2018, OMV Petrom operated 208 commercial oil and gas fields in Romania. Production from these fields amounted to a daily average quantity of 152.9 kboe/d, compared to 160.6 kboe/d in 2017. In August 2017, 19 marginal fields with a production of around 0.5 kboe/d (2017 average) were transferred to Mazarine Energy Romania under a business transfer agreement.

In Romania, OMV Petrom produced 3.4 mn t of crude oil and NGL and 4.78 bcm of natural gas, the equivalent of 55.82 mn boe total oil and gas. Offshore production accounted for 17.4% from total hydrocarbons production in Romania (6.3% of the crude oil and NGL production and 26.1% of natural gas production). Events affecting production included the planned maintenance at offshore gas compressors (Lebăda Est Non Associated Gas) in the mid of the year and at Hurezani facilities in the fourth quarter. The largest gas field, Totea Deep, continued its decline in 2018.

Crude oil production based on enhanced oil recovery techniques accounted for 26% of total domestic oil production. Heavy oil, representing crude oil with density greater than 900 kg/m³, accounted for more than 36% of total production of crude oil and NGL.

In 2018, the average crude oil production was 67.3 kboe/d as compared to 68.5 kboe/d in 2017. Average gas production was 85.6 kboe/d, below the level of 92.2 kboe/d achieved in 2017. The internal gas consumption for upstream domestic operations accounted for 10.8% of total gas production.

In 2018, we completed another successful shallow offshore drilling campaign, thereby adding the first multilateral horizontal offshore well to our portfolio as top oil producer, partially compensating for the natural decline.

In line with OMV Petrom's focus on the most profitable barrels, the portfolio optimization continued as planned; on September 28, 2018, an agreement was signed with Mazarine Energy Romania for the transfer of nine fields. The

Agreement with Mazarine Energy Romania for transfer of nine fields signed

transfer of these fields became effective as of March 1, 2019.

Key projects

In 2018, drilling activities were sustained at a high level, with an average of 13 drilling rigs active in OMV Petrom's operated licenses. In line with our strategy to support the increase of the Reserves Replacement Rate (RRR), a total of 110 new wells and sidetracks were drilled by the end of 2018, which is 59% higher compared with the previous year. These activities included the drilling of deep and complex, high impact exploration wells, as well as some wells with high impact on production.

During 2018, OMV Petrom further invested in the redevelopment 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's Strategy 2021+, selected FRDs continue to play a role in unlocking additional resources. Therefore, at the end of the year, four projects in the assessment phase were aimed at identifying the optimum development options for the subsequent phases.

In addition, by using new state-of-the-art reservoir modeling techniques, efforts are focused on bringing new candidates into the development funnel and thus creating new opportunities with the potential of contributing additional reserves.

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

► Central Hydrocarbon Dewpointing installation (CHD) Hurezani

CHD Hurezani Project has as main scope the installation of a Low Temperature Separation (LTS) unit of 6 mn Scm/d, a condensate fiscal delivery system and a 20" Gas pipeline gathering all the gas in the area to feed the Hurezani Treatment Hub (12 km).

The 20" Gas pipeline was executed and successfully started up in October, along with the related facilities installed in Panel Hurezani. All required inlet and outlet tie-ins of the new LTS unit to the existing plant, as well as tie-ins into

the existing utilities system, were successfully executed. By performing these works during the October shutdown, the feeding system has been prepared to handle all production maneuvers required for the LTS start-up, with no further production deferment. At the end of the year, overall project progress was around 90%. Commissioning and testing works remaining to be executed will be performed in early 2019, aiming at a start-up in the first half of 2019.

► **FRD Burcioaia and Safety Upgrade Mădulari**

The facilities in Burcioaia and Mădulari treat around 7% of OMV Petrom's gas production in Romania. While FRD Burcioaia became fully operational towards the end of 2018, the Mădulari plant was successfully restarted and is treating the production from the area; the plant is expected to be fully operational in 2019.

► **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, consisting of drilling new horizontal wells, construction and modernization of gathering and metering points as well as a pipeline, became operational in mid-2018. FRD Independența had an important impact on the field production in 2017 and 2018, contributing with up to 20% to the overall field production.

► **FRD Suplac Phase 2 and Suplac Key Infrastructure projects**

In 2018, the Suplac Produced Water Treatment Plant was finalized. The plant has a capacity of 8,000 m³/day and the treatment process comprises physical, chemical and biological stages. As a last step, it also uses an activated carbon filtration system before discharge is released into the Barcău river, in compliance with legally required specifications. In the first year of operation, process efficiency exceeded expectations.

Many of the FRD Suplac Phase 2 activities (wells tie-ins), which were put on hold between 2014 and 2016, could successfully be restarted and have

made significant progress in 2018.

Construction works have started for other two major projects in Suplac area, namely "Revamp Tankfarm Suplac" and "Revamp Drinking Water Suplac", projects focused on improving safety, integrity and energy consumption.

► **Offshore Rejuvenation Program**

The Offshore Rejuvenation Program for Asset X completed key process safety and integrity projects in 2018. Some of the projects include: installation and commissioning of new offshore cranes in compliance with EU regulations, fitting of all offshore installations with fully automated fire and gas detection systems, successful completion of two major upgrades to the existing offshore cranes, finalizing of riser protection project to ensure integrity. The program ensures compliance with the new Offshore Safety Directive that came into force in 2018. The program was setup in 2015 and will continue until 2023 to address key process safety and integrity risks in our offshore assets; over 50% of the actions have been addressed and closed out.

Offshore Rejuvenation Program to continue until 2023

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 Timiș, PEC Turnu and PEC Țicleni, covering 24 mature fields in total.

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.

In 2018, the total annual **production** of the PECs

2018 production from
PECs at 7.4 kboe/d

was 7.4 kboe/d (2017: 6.9 kboe/d), of which PEC Țicleni, PEC Turnu and PEC Timiș contributed 3.7 kboe/d, 1.1 kboe/d, and 2.5 kboe/d respectively.

In **PEC Timiș**, a new well was drilled and completed and 18 workovers were executed during the year. The partner invested approximately EUR 7 mn in the PEC Timiș area, mainly in the workovers and the new well drilled in the Pordeanu field.

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

In **PEC Țicleni**, four new wells were drilled and 47 workovers were executed. The partner invested in developing projects in the PEC area, mainly in workovers and new wells.

In the **partnership with Hunt Oil** (50% OMV

Petrom, 50% Hunt Oil), we recorded a total production of 1.4 kboe/d (OMV Petrom share) in 2018.

The total production recorded by PECs and joint operations in 2018 was 8.8 kboe/d (2017: 8.2 kboe/d), representing 5% 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 2018, the average oil and gas production in Kazakhstan was 6.8 kboe/d (2017: 7.0 kboe/d). Production was significantly affected by the lack of well intervention crews following the incident in the first part of the year and well workover services at some of the key wells in Komsomolskoe.

Production in 2018

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcm	mn boe	mn boe
Romania	3.42	24.58	4.78	31.24	55.82
Kazakhstan	0.28	2.20	0.05	0.28	2.49
OMV Petrom Group	3.70	26.78	4.83	31.52	58.30

Proved reserves as of December 31, 2018

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	42.2	303.5	1,110.9	205.7	509.2
Kazakhstan	2.7	20.9	13.8	2.3	23.2
OMV Petrom Group	44.9	324.4	1,124.7	208.0	532.4

Reserve Replacement Rate (RRR)

As of December 31, 2018, the total **proved** oil and gas **reserves** in the OMV Petrom Group's portfolio amounted to 532 mn boe (of which 509 mn boe in Romania), while the **proved and probable** oil and gas **reserves** amounted to 810 mn boe (of which 766 mn boe in Romania).

For the single year 2018, the Group's RRR was 42% (2017: 34%), while in Romania it increased to 40% (2017: 33%). The Group's three-year average RRR increased to 38% in 2018 (2017: 34%), while in Romania it increased to 34% (2017: 29%).

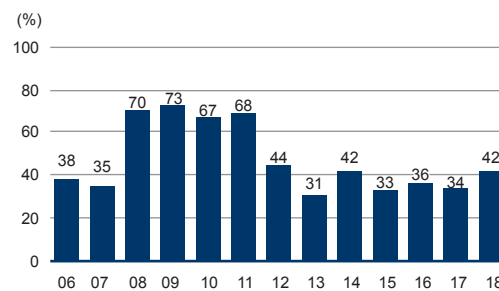
The OMV Petrom Group was able to keep its RRR at around 40% in the last three years, mainly due to adjustments, favourable drilling and workover results and diversification of recovery

techniques and field appraisals.

An external reserves audit for 2017 was performed by De Golyer & Mac Naughton. The auditor's estimates were in material agreement with OMV Petrom's reserves assessment

External audit confirmed internal assessment of 2017 reserves

OMV Petrom Group (1Y) Reserves Replacement Rate



Downstream

Downstream Oil

At a glance ¹

	2018	2017	Δ (%)
Segment sales (RON mn) ²	17,208	14,550	18
Operating Result (RON mn) ³	1,385	1,681	(18)
Special items (RON mn)	9	44	(80)
CCS effects (RON mn)	42	104	(60)
Clean CCS Operating Result (RON mn) ⁴	1,335	1,533	(13)
Operating Result before depreciation (RON mn)	2,068	2,352	(12)
Capital expenditure (RON mn)	1,112	446	149
Refinery utilization rate (%)	85	93	(9)
Crude oil processed (kt) ⁵	3,788	4,152	(9)
Total refined product sales (kt)	4,987	5,073	(2)
thereof: Gasoline (kt)	1,208	1,249	(3)
Diesel (kt)	2,494	2,434	2
Kerosene/Jet fuel (kt)	275	279	(1)
Residual products (kt)	267	276	(3)
thereof: Retail sales volumes (kt) ⁶	2,743	2,703	1

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 36-47;

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 is our first priority

In Downstream Oil, we continued to focus on improving the HSSE performance, by rolling out several programs throughout the organization (campaigns such as: "Be Smart, Be Safe", "Take Safety and Security Home" and "Hazard Awareness Campaign").

The LTIR (employees and contractors combined) in Downstream Oil was 0.08, better than the international benchmark.

Operational performance

The operational performance and energy efficiency of the Petrobrazi refinery remained at competitive levels.

margin was USD 6.28/bbl, lower by USD 1.47/bbl than in 2017, as a result of the higher cost of crude oil.

The **refinery utilization rate** was lower yoy (85% in 2018 compared to 93% in 2017), impacted by the six-week planned turnaround in Q2/18.

The continued focus on operational and energy efficiency allowed us to maintain the fuel and loss indicator below 9%, similar to the previous year.

Refining margin
significantly down yoy

In 2018, the **OMV Petrom** indicator refining

Production (kt)

	2018	2017	Δ (%)
Gasoline	1,151	1,215	(5)
Diesel	1,582	1,761	(10)
Kerosene/Jet fuel	111	143	(22)
Residual products	206	203	1
LPG total	189	222	(15)
Petroleum coke	248	268	(7)
Other	267	321	(17)
TOTAL	3,754	4,132	(9)

OMV Petrom Group's total refined product sales amounted to 4,987 kt in 2018, representing a 2% decline compared to 2017, mainly reflecting the decrease in non-retail sales.

Group **retail** sales were 1% higher than in 2017, reaching 2,743 kt, as a result of a positive trend in the domestic market demand, despite the competition's network growth. In Romania, retail sales reached 2,283 kt in 2018, 2% higher than in 2017. Therefore, in 2018, the average throughput per station in Romania increased to 5.03 mn liters (2017: 4.95 mn liters), driving the overall increase of this indicator at the Group level to 4.28 mn liters (2017: 4.26 mn liters).

Retail market share ⁱ in the operating region was slightly above the 2017 level, growing to 34%, thereby reflecting improved efficiency and portfolio optimization, despite increased competition.

Within the OMV-branded filling stations, we continued to provide our customers with best-in-class fuels, products and services, combined with a diversified offer (e.g. money transfer, car insurance, utilities payments, postal services).

In the Petrom-branded filling stations, our efforts were aimed at consolidating the brand positioning

as the "value for money" leader, through strategic partnerships and programs that generate additional benefits and increase customer loyalty. We continued the pilot phase of the cooperation with the retailer Auchan, consisting of 15 MyAuchan convenience stores opened in Petrom filling stations in 2017 and at the beginning of 2018. Following the encouraging results of the pilot phase, at the beginning of 2019 we signed a Memorandum of Understanding with Auchan Retail Romania to discuss further expansion of this partnership, pending final approval from the Competition Council. As the next step, we target the completion of the roll out agreement. 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 continued to support the increased retail performance yoy. In 2018, the total non-oil business turnover at Group level increased by 9% compared to the previous year, driven by the improved performance and benefits of the shop-in-shop ⁱⁱ concept, by the diversified offer in the restaurant area, and by our strategic partnerships.

In 2018, in the **non-retail** distribution channel, OMV Petrom continued to focus on strengthening

Non-oil business
turnover increased by
9% yoy

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

ⁱⁱ Space rented to partners within the shop area of a filling station.

Eight new filling
stations added in 2018

business-to-business activities and maximizing value from its product portfolio by taking advantage of market opportunities, targeting new customers and customizing the offers based on a market segmentation approach. However, as a result of lower product availability due to the refinery turnaround, Group non-retail sales decreased by 5% compared to 2017. In Romania, non-retail sales were 1,166 kt, 1% below the previous year's level.

OMV Petrom **fuel prices** have a dynamic evolution based on international fuel quotations,

namely Platts Mediterranean, as well as on market competition. In addition, prices are influenced by the fiscal policy and exchange rate. As the volatility of quotations is extremely high and an immediate reflection in product prices would make the market unstable, OMV Petrom fuel prices only reflect the trend, not the highs or lows.

The **filling stations network** operated within the OMV Petrom Group at the end of 2018 comprised a total of 794 filling stations, eight units higher than in 2017, as a result of new opportunities.

Number of filling stations per country at the end of period

	2018	2017	Δ
Romania	558	555	3
Moldova	82	79	3
Bulgaria	93	91	2
Serbia	61	61	0
Total	794	786	8

Downstream Gas

At a glance ¹

	2018	2017	Δ (%)
Segment sales (RON mn) ²	5,079	4,737	7
Operating Result (RON mn) ³	286	86	232
Special items (RON mn)	(73)	(134)	45
Clean Operating Result (RON mn)	360	220	64
Operating Result before depreciation (RON mn)	378	315	20
Capital expenditure (RON mn)	26	87	(70)
Gas sales volumes (TWh)	47.3	51.4	(8)
thereof to third parties (TWh)	38.9	45.3	(14)
Net electrical output (TWh)	3.8	2.7	41

¹ For information about the financial performance of the segment, please refer to the relevant section in the Directors' report on pages 36-47;

² Including inter-segment sales;

³ Excluding intersegmental profit elimination.

HSSE is our first priority

Downstream Gas HSSE performance continued to be excellent in 2018. The health and safety of our employees and contractors is always our top priority and we are proud that no work-related incidents or lost-time injuries were recorded during the year.

Operational performance

According to our estimates, national gas consumption remained stable compared to 2017 and was covered by lower domestic production and higher imports. The gas volumes traded on the Romanian centralized market totaled around 69 TWh (with delivery until end-2019), at an average price of RON 92/MWh ⁱⁱⁱ.

OMV Petrom's total gas sales volumes decreased to 47.3 TWh in 2018, by 8% yoy, mainly due to lower equity production. We concluded significant sale transactions on the centralized markets, with a total volume of 13.8 TWh of gas contracted for deliveries until end-2019, at an average price in line with market prices. At the end of 2018, OMV Petrom had 1.9 TWh of gas in storage.

During 2018, we made progress with delivering on the strategy direction of consolidating our leading

position on the Romanian gas market. As such, we maintained our focus on providing the best energy solutions to our clients while building up long-term relationships. 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.). As a result of better understanding our customers' different needs and continuously providing the best-suited solution, we have increased our sales to end-customers.

On the **power** market, as per currently available data from the grid operator, national electricity consumption slightly increased to 61 TWh in 2018 (2017: 60 TWh), while national electricity production had a similar trend reaching almost 64 TWh (2017: 63 TWh); net exports were lower than in 2017. In terms of the power generation mix in 2018, the significantly higher power production from hydro sources compensated the lower production from coal and renewable sources.

We increased our sales to end-customers

Electricity production and consumption increased by around 1 TWh yoy in 2018

ⁱⁱⁱ 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
accounted for 6% of
the national electricity
production

The OPCOM spot base load power prices were relatively stable yoy, averaging RON 216/MWh in 2018 (2017: RON 220/MWh).

2018 was an important year for our power business, with the Brazi power plant having generated the highest net electrical output since the start of its operations in 2012. With 92% availability, the plant was able to capitalize on the favorable market conditions and generated a net electrical output of 3.8 TWh. We supplied the wholesale market, while also enlarging our

retail customer portfolio. As such, the Brazi plant had an important contribution to Romania's security of supply, providing approximately 6% of the national electricity production (2017: 4%), while also being an important player on the power balancing market. Also, another important highlight of the year was the successful finalization of the negotiations with the insurers on the claims related to the Brazi power plant incidents occurred in 2016 and 2017, for which OMV Petrom booked revenues of RON 243 mn (thereof RON 161 mn in 2017 and RON 82 mn in 2018).

Report of the governing bodies

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FUELS



GAS



ELECTRICITY

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 Company's strategic focus and business performance in all areas of activity during 2018.

The following report provides an overview of 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 who were 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 expires on April 28, 2021. The CVs of the current Supervisory Board members are available on the Company's corporate website and are also included in the Corporate Governance Report. At the beginning of 2018, the Supervisory Board consisted of the following members: 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.

Following Johann Pleininger's waiver of his mandate as member of the Supervisory Board, Christopher Veit was appointed by the Ordinary GMS, as of April 26, 2018, as member of the Supervisory Board. Moreover, the Ordinary GMS held on April 26, 2018, appointed Sevil Shhaideh

(interim member of the Supervisory Board as of October 26, 2017) as member of the Supervisory Board until April 28, 2021, following the waiver of Mihai Busuioc's mandate as member of the Supervisory Board.

At the end of 2018, the Supervisory Board therefore had the following composition: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Christopher Veit, Daniel Turnheim, Jochen Weise, Sevil Shhaideh, Radu-Spiridon Cojocaru and Joseph Bernhard Mark Mobius.

Independence

Upon appointing each Supervisory Board member, 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 to those provided by the Company Law). The independence evaluation consists of an individual personal assessment carried out by the relevant Supervisory Board member, and is then followed by an external assessment.

Moreover, for the purpose of preparing this report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2018. Following this evaluation, it resulted that the following Supervisory Board members met during 2018 all the independence criteria stipulated by the Corporate Governance Code, namely: Jochen Weise, Radu-Spiridon Cojocaru and Sevil Shhaideh. In addition, starting 2019, also Joseph Bernhard Mark Mobius meets all the independence criteria stipulated by the Corporate Governance Code.

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

Supervisory Board works

In 2018, the Supervisory Board thoroughly reviewed the position and prospects of the Company and accomplished its functions according 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

Supervisory Board
current mandate until
April 2021

One new Supervisory
Board member

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 six 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 by circulation, without an actual meeting being held, on two 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 2018. The average participation rate was over 95%. On five 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. Based on the reports of the Executive Board, the Supervisory Board discussed all significant matters for OMV Petrom in the plenary meetings. The frequency of both plenary and committee meetings has facilitated an intensive dialogue between the Executive Board and Supervisory Board.

Besides the usual items, proposals and materials that were discussed and submitted for approval of the Ordinary GMS in April 2018, Supervisory Board's main focus during 2018 was, amongst others, the development and investments of the Company.

Also, in order to give to the shareholders comfort of a more stable, predictable and attractive

dividend, the Supervisory Board approved on April 4, 2018 a new dividend policy.

New dividend policy approved

In terms of governing bodies, the Supervisory Board was focused on the strategic management of the Company and also on approving changes in the membership of the Executive Board.

During 2018 the Executive Board periodically updated the Supervisory Board on the status of the Neptun Deep Project.

In addition, the President of the Executive Board regularly informed the Supervisory Board on the developments of the Company's business.

Moreover, during 2018 the Executive Board also periodically informed the Supervisory Board about the status of the process for the second 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 of obtaining the land ownership certificates.

As provided by OMV Petrom's Privatization Agreement and by Law 555/2004 regarding the privatization of SNP Petrom S.A., OMV Petrom is required to perform the second land share capital increase by incorporating the value of all such land plots after all land ownership certificates have been obtained. Likewise, the Executive Board also provided information to the Supervisory Board on the constant cooperation between the Company and the Romanian State via Ministry of Energy to clarify the pending issues in order to proceed with the implementation of the second land share capital increase.

Self-evaluation of the Supervisory Board

The Company has a Supervisory Board Self-Evaluation Guideline in place that provides the purpose, criteria and frequency of such an evaluation. The aim of this self-evaluation is to assess and, if necessary, to improve both the efficiency and the effectiveness of the Supervisory Board's activities, as well as to ensure that the Supervisory Board can fulfil its responsibilities towards shareholders and other stakeholders. Based on this Supervisory Board Self-Evaluation Guideline, the Supervisory Board underwent a self-evaluation process for the business year 2018, under the guidance of the President of the

Three out of the four
Audit Committee
members are
independent

Presidential and Nomination Committee. In terms of experience, expertise, qualification, diversity, number of members and presence, the Supervisory Board considers the composition of the Supervisory Board to be satisfactory. Supervisory Board members also value the good collaboration with the Executive Board, the organization and conducting of the Supervisory Board meetings and the quality of the documents provided for such meetings.

Audit Committee

The Audit Committee is a consultative committee consisting of Supervisory Board members who assist the Supervisory Board on topics such as financial reporting, external auditing, internal auditing, internal controls and risk management, as well as compliance, conduct and conflicts of interest.

At the end of 2018, as well as at the date of this report, the Audit Committee was composed of four members, namely 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 are also included in the Corporate Governance Report.

In 2018, 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's proposal regarding the allocation of the profits as well as the proposal regarding the distribution of dividends for the financial year 2017 and recommended to the Supervisory Board and to the GMS the reappointment of Ernst & Young Assurance Services SRL (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, and the responsiveness and effectiveness of management to deal with failings

or weaknesses identified during internal control activities.

Moreover, the Audit Committee focused on assessing 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 2019.

In addition, in 2018 it examined and reviewed, before their submission to the Supervisory Board for approval, related party transactions that exceeded 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 2018. 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 19, 2019.

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, 2018 are also prepared in accordance with IFRS, as the Ministry of Finance Order no. 2844/2016 stipulates that Romanian listed companies must prepare separate financial statements in accordance with IFRS as endorsed by the European Union, starting with the year ended December 31, 2012.

EY audited the 2018 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, 2018, as well as the Executive Board proposal to distribute

dividends of RON 0.027 per share (corresponding to a payout ratio of 38% based on the Group's 2018 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, 2018 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 14, 2019 in line with the Audit Committee's recommendation and will further be submitted for approval in the Ordinary GMS to be held on April 19, 2019. Furthermore, following the review by the Audit Committee, the Supervisory Board has reviewed and approved the reports on payments to governments for the year 2018, prepared in accordance with Chapter 8 of the Annex 1 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 2018 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 2018 despite the difficulties caused by the effects of the volatile regulatory 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 2018 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 new opportunities and unlock its full potential in the years to come.

Bucharest, March 14, 2019



Rainer Seele
President of the Supervisory Board

Dividend proposal of
RON 0.027/share, 35%
higher yoy

Directors' report



From left to right: Stefan Waldner (Chief Financial Officer - EB Member); Franck Neel (EB Member - Downstream Gas); Christina Verchere (Chief Executive Officer - President of EB); Radu Căprău (EB Member - Downstream Oil); Peter Zeilinger (EB Member - Upstream).

OMV Petrom Group financials (RON mn)

	2018	2017	Δ (%)
Sales revenues	22,523	19,435	16
Operating Result	5,213	3,270	59
Net income	4,078	2,489	64
Net income attributable to stockholders	4,078	2,491	64
Cash flow from operating activities	7,385	5,954	24
Capital expenditures	4,289	2,969	44
Employees at the end of period	13,201	13,790	(4)

In 2018, the Group reported consolidated **sales** of RON 22,523 mn, 16% higher compared to 2017, driven by higher commodity prices and electricity sales volumes, partially offset by lower sales volumes of gas and petroleum products.

The Group's **Operating Result** for the year 2018 increased by 59% to RON 5,213 mn (2017: RON 3,270 mn), supported mainly by higher commodity prices and ongoing cost optimization.

Clean CCS Operating Result, in amount of RON 4,804 mn, higher by 47% yoy, is stated after eliminating net special income of RON 223 mn and inventory holding gains of RON 186 mn. The **net result was a profit** of RON 4,078 mn in 2018 (2017: RON 2,489 mn).

The **return on average capital employed** ^{iv} (ROACE) reached a value of 15.6% (2017: 9.9%), while Clean CCS ROACE increased to

Operating Result up
59% yoy

^{iv} For definitions of these ratios please refer to pages 72-74, section "Abbreviations and definitions".

14.3% at the end of 2018, from 9.8% at the end of 2017.

Cash flow from operating activities amounted to RON 7,385 mn, 24% above the 2017 level, reflecting the significantly higher operating result supported by the favorable commodity price

developments and cost optimization.

Capital expenditure amounted to RON 4,289 mn in 2018 and was 44% higher than in 2017.

Based on a strong cash balance at December 31, 2018, OMV Petrom Group reported a **net cash** position of RON 4,891 mn at the end of 2018, up from RON 2,897 mn at the end of 2017.

CAPEX at RON 4.3 bn, 44% up yoy

Operating Result

Operating Result (RON mn)	2018	2017	Δ %
Upstream ¹	3,531	1,661	113
Downstream	1,672	1,768	(5)
thereof Downstream Oil	1,385	1,681	(18)
thereof Downstream Gas	286	86	232
Corporate and Other	(106)	(76)	(39)
Consolidation: elimination of intercompany profits	116	(82)	n.m.
OMV Petrom Group Operating Result	5,213	3,270	59

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

In **Upstream, Operating Result** amounted to RON 3,531 mn, driven by higher oil and gas prices and lower total production costs and exploration expenses. **Exploration expenses** decreased to RON 174 mn in 2018 (2017: RON 308 mn) as a result of lower write-offs. Group **production cost** was USD 11.18/boe, 3% higher compared to the 2017 level, mainly due to unfavorable FX development and lower production available for sale, partly offset by lower personnel costs and services expenses. Production cost in Romania was USD 11.38/boe, 4% higher versus 2017; in RON terms it increased by 2% to RON 44.83/boe. Upstream Operating Result in 2018 also reflected special items of RON 306 mn (2017: special charges of RON (13) mn), driven mainly by a reversal of a previously recorded impairment and personnel restructuring, while both periods included reassessments of receivables and provisions.

In **Downstream Oil, Operating Result** came in at RON 1,385 mn (2017: RON 1,681 mn), reflecting the impact of the Petrobrazzi six-week

full-site planned turnaround in Q2/18 and lower refining margins, which offset the higher retail contribution. In 2018, the OMV Petrom indicator **refining margin** decreased versus 2017 by USD 1.47/bbl to USD 6.28/bbl, as a result of higher cost of crude oil. The **refinery utilization rate** was 85%, impacted by the six-week planned turnaround (2017: 93%). Downstream Oil Operating Result reflected also a net gain from **special items** of RON 9 mn (2017: RON 44 mn), and **CCS inventory holding gains** of RON 42 mn (2017: RON 104 mn).

In **Downstream Gas, Operating Result** increased to RON 286 mn (2017: RON 86 mn) reflecting the optimization of products and clients, as well as the improved performance of the power business supported by higher availability of the Brazi power plant. The insurance revenues booked in 2018 in connection with the Brazi power plant incidents occurred in 2017 amounted to RON 82 mn (2017: RON 161 mn). Downstream Gas Operating Result reflected also special charges of RON (73) mn mainly from the valuation

Refinery utilization rate at 85%, impacted by the six-week planned turnaround

RON 82 mn insurance revenues booked in 2018

of electricity forward contracts, while 2017 reflected net special items of RON (134) mn mainly due to impairments.

Operating Result in the **Corporate and Other** (Co&O) segment was RON (106) mn (2017: RON (76) mn).

Special items and CCS effect

Special items and CCS effect (in RON mn)	2018	2017	Δ %
Clean CCS Operating Result	4,804	3,273	47
Special items	223	(105)	n.m.
thereof personnel and restructuring	(71)	(2)	n.m.
thereof unscheduled depreciation and write-ups	423	(132)	n.m.
thereof other	(130)	29	n.m.
CCS effect: Inventory holding gains/(losses)	186	102	82
OMV Petrom Group Operating Result Group	5,213	3,270	59

RON 223 mn
special items mainly
reflect reversal of
an impairment in
Upstream

The disclosure of **Special items** is considered appropriate in order to facilitate the analysis of the ordinary business performance. To reflect comparable figures, certain items affecting the result are added back or deducted. They are being disclosed separately. These items can be divided into three categories: personnel and restructuring, unscheduled depreciation and write-ups and other.

Furthermore, to enable effective performance management in an environment of volatile prices and comparability with peers, the **Current Cost of Supply (CCS)** effect is eliminated from the result. The CCS effect, also called inventory holding

gains or losses, represents the difference between the cost of sales calculated using the current cost of supply and the cost of sales calculated using the weighted average method after adjusting for any changes in valuation allowances, in case the net realizable value of the inventory is lower than its cost. In volatile energy markets, measurement of the costs of petroleum products sold based on historical values (e.g. weighted average cost) can have a distorting effect on the reported results. This performance measurement enhances the transparency of the results and is commonly used in the oil industry. OMV Petrom, therefore, published this measurement in addition to the Operating Result determined according to IFRS.

Notes to the income statement

Summarized consolidated income statement (RON mn)	2018	2017	Δ %
Sales revenues	22,523	19,435	16
Other operating income	672	364	85
Net income from equity-accounted investments	10	8	14
Total revenues and other income	23,205	19,807	17
Purchases (net of inventory variation)	(8,040)	(6,698)	(20)
Production and operating expenses	(3,140)	(3,162)	1
Production and similar taxes	(1,241)	(929)	(33)
Depreciation, amortization and impairment charges	(3,180)	(3,345)	5
Selling, distribution and administrative expenses	(1,977)	(1,971)	0
Exploration expenses	(174)	(308)	43
Other operating expenses	(239)	(123)	(94)
Operating result	5,213	3,270	59
Net financial result	(299)	(366)	18
Taxes on income	(836)	(415)	(101)
Net income	4,078	2,489	64
Less net income attributable to non-controlling interests	(0)	(2)	79
Net income attributable to stockholders of the parent	4,078	2,491	64

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 2017, consolidated sales revenues increased by 16% to RON 22,523 mn, driven by higher commodity prices and electricity sales volumes, partially offset by lower sales volumes of gas and petroleum products. After the elimination of intra-group transactions of RON 9,215 mn, the contribution of the **Upstream** segment representing sales to third parties was RON 528 mn or about 2% of the Group's total sales revenues (2017: RON 458 mn). Sales to external customers in the **Downstream Oil** segment amounted to RON 17,075 mn or 76% of total consolidated sales (2017: RON 14,470 mn). After elimination of intra-group sales, the **Downstream Gas** segment's contribution was RON 4,884 mn or approximately 22% of total sales (2017: RON 4,473 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 an amount of RON 19,112 mn or 85% of the Group's total sales (2017: RON 16,103 mn, 83% of total sales) and sales in the rest of Central and Eastern Europe were RON 3,382 mn or 15% of Group sales (2017: RON 3,308 mn).

85% of Group sales in Romania

Other operating income of RON 672 mn in 2018 include a RON 430 mn reversal of a previously recorded impairment in Upstream.

Purchases (net of inventory variation) which include costs of goods and materials employed amounted to RON 8,040 mn and increased by 20% versus 2017 mainly as a result of lower own products availability due to the refinery turnaround, and increases in quotations.

Production and operating expenses were fairly flat compared to 2017, reaching RON 3,140 mn.

Exploration expenses decreased to RON 174 mn (2017: RON 308 mn), mainly due to lower write-offs.

Other operating expenses increased by 94% to RON 239 mn, compared to the 2017 value of RON

123 mn, mainly due to the higher positive impact from a partial reversal in 2017 of a provision related to litigations with employees, following the outcome of court decisions.

The net financial result improved to RON (299)

mn from RON (366) mn in 2017, reflecting mainly higher interest income on bank deposits.

Taxes on income were in the amount of RON (836) mn (2017: RON (415) mn), mainly driven by the higher profit generated during 2018.

Capital expenditure (CAPEX)

OMV Petrom Group Capital expenditure (RON mn)	2018	2017	Δ (%)
Upstream	3,150	2,435	29
Downstream	1,138	533	114
thereof Downstream Oil	1,112	446	149
thereof Downstream Gas	26	87	(70)
Corporate and Others	1	2	(41)
Total capital expenditure	4,289	2,969	44
+/- Other adjustments ¹	54	(82)	n.m.
- Investments in financial assets	(9)	-	n.m.
Additions according to statement of non-current assets (intangible and tangible assets)	4,334	2,887	50
+/- Non-cash changes ²	(7)	(280)	98
Cash outflow due to investments in intangible and tangible assets	4,327	2,607	66
+ Net inflow from sale/investment in subsidiaries, non-current assets and other financial assets	(67)	(160)	58
Net cash used for investing activities	4,261	2,446	74

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 increase reflect increased drilling in Upstream and various projects in Downstream Oil

Capital expenditure increased by 44% to RON 4,289 mn (2017: RON 2,969 mn).

Investments in **Upstream** activities amounted to RON 3,150 mn and represented 73% of total Group CAPEX for 2018, being 29% higher than in 2017, as a result of intensified drilling and workover activities.

Exploration expenditures increased to RON 466 mn (2017: RON 235 mn) as a result of the increased drilling activities in deep onshore exploration wells.

Downstream investments amounted to RON 1,138 mn (2017: RON 533 mn). Downstream Oil investments amounted to RON 1,112 mn (2017: RON 446 mn), mainly comprising investments directed to the Petrobrazi refinery turnaround, tie-in projects and the Polyfuel growth project. In Downstream Gas, investments were mainly in relation to the planned shutdown of the Brazi power plant and the acquisition of a back-up transformer.

Statement of financial position

Summarized consolidated statement of financial position (RON mn)	2018	2017	%
Assets			
Non-current assets	33,549	33,727	(1)
Intangible assets and property, plant and equipment	29,808	29,755	0
Investments in associated companies	58	50	17
Other non-current assets	2,249	2,377	(5)
Deferred tax assets	1,433	1,545	(7)
Current assets	10,235	8,332	23
Inventories	2,152	2,083	3
Trade receivables	1,674	1,513	11
Assets held for sale	129	5	n.m.
Other current assets	6,281	4,731	33
Total assets	43,784	42,059	4
Equity and liabilities			
Total equity	31,368	28,421	10
Non-current liabilities	6,867	8,509	(19)
Provisions for pensions and similar obligations	211	225	(6)
Interest-bearing debts	282	559	(50)
Provisions for decommissioning and restoration obligations	5,993	7,275	(18)
Provisions and other liabilities	361	451	(20)
Deferred tax liabilities	20	0	n.m.
Current liabilities	5,549	5,129	8
Trade payables	3,050	2,805	9
Interest-bearing debts	267	329	(19)
Liabilities associated with assets held for sale	103	0	n.m.
Provisions and other liabilities	2,128	1,995	7
Total equity and liabilities	43,784	42,059	4

Compared to December 31, 2017, **total assets** increased by RON 1,725 mn, to RON 43,784 mn, mainly driven by a higher cash and cash equivalents position. Additions to intangible assets and property, plant and equipment amounted to RON 4,334 mn (2017: RON 2,887 mn).

The increase in **total equity** by RON 2,947 mn was the result of the net profit generated in the current year, partially offset by the dividends distributed for the 2017 financial year in a gross amount of RON 1,133 mn.

The net decrease in **interest-bearing debts** (both **long- and short-term**) by RON 338 mn was mainly related to repayments of loans in 2018.

The Group's **liabilities other than interest bearing debts** (both **long- and short-term**) decreased by RON 884 mn, mainly due to reassessment of provisions, partially offset by the increase of trade payables and liabilities associated with assets held for sale.

OMV Petrom Group reached a **net cash** position of RON 4,891 mn (2017: RON 2,897 mn).

Net cash close to RON 5 bn

Cash flow

Summarized consolidated cash-flow statement (RON mn)	2018	2017
Sources of funds	7,353	6,153
Cash flow from operating activities	7,385	5,954
Cash flow from investing activities	(4,261)	(2,446)
Free cash flow	3,125	3,508
Cash flow from financing activities	(1,495)	(1,524)
Effect of exchange rates on cash and cash equivalents	1	(1)
Net increase in cash and cash equivalents	1,630	1,983
Cash and cash equivalents at beginning of the period	3,979	1,996
Cash and cash equivalents at end of the period	5,609	3,979
Free cash flow after dividends	2,002	2,666

In 2018, 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 7,353 mn (2017: RON 6,153 mn), while changes in **net working capital** generated a cash inflow of RON 32 mn (2017: outflow of RON 199 mn). **Cash flow from operating activities** increased by RON 1,431 mn compared to 2017, reaching RON 7,385 mn, reflecting the significantly higher operating result supported by favorable commodity price developments and cost optimization.

In 2018, the **cash outflow from investing activities** amounted to RON 4,261 mn (2017: RON 2,446 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 1,495 mn (2017: RON 1,524 mn), mainly arising from the payment of dividends of RON 1,123 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 3,125 mn (2017: RON 3,508 mn). **Free cash flow less dividend payments** resulted in a cash inflow of RON 2,002 mn (2017: RON 2,666 mn).

Risk management

As per the Corporate Governance Code, OMV Petrom's Supervisory Board's role is to adopt strict rules and obtain assurances, 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 through 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 Management function with the objective to lead and coordinate the Company's risk management-related processes.

OMV Petrom's risk management process enables the Company to assess whether long-term sustainability and the mid-term liquidity are secured, and whether the estimated impact of the risks is within acceptable levels.

From a long-term sustainability perspective, a strategic risk assessment process is in place, on the one hand, to capture the executive management's perspective of the risk environment across a long-time horizon and, on the other

Increase of cash flow from operating activities supported by favorable commodity prices and cost optimization

hand, develop risk mitigation plans and monitor implementation of defined actions. The strategic risks refer to both externally and internally driven risks (e.g. oil and gas market volatility, climate change, political, regulatory, human capital, technology and innovation). An annual strategic risk assessment ensures a robust revalidation of identified risks. It captures new developments or provides updated information on the operating environment and industry trends, and thereby has a positive impact on the Company's ability to mitigate and / or protect itself against risks.

As regards mid-term liquidity, 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 the approval decision, as part of the project evaluation process.

OMV Petrom's Enterprise-Wide Risk Management (EWRM) system complies with the ISO 31000 Risk Management International Standard and comprises a dedicated risk organization working under a robust internal regulation framework with a 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, the second level is made up of risk coordinators who facilitate and coordinate the risk management process in their division, and the third layer is the risk management function which coordinates the

entire process assisted by specialized corporate functions (e.g. 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 into 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 risk management practices 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, taking into consideration 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 hazards. Other risks that influence the Company's results are counterparty credit risk, liquidity risk, and interest rate risk.

In regard to 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 is essentially exposed to the volatility

Executive Board steers and approves OMV Petrom's consolidated risk profile

Market price risk - core strategic importance

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 foreign exchange currencies upon approval from OMV Petrom's Executive Board in line with the Company's risk appetite and/or risk assessments.

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base composed mainly of 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. blowouts, 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 regarding 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. Based on 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.

To assess short-term **liquidity risk**, 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 always remains solvent and retains the necessary financial flexibility, liquidity reserves in the 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 and ROBOR may trigger less or additional cash flow resources necessary to finance the interest payments associated with OMV Petrom's debt. However, the risk and the mentioned volatility are 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 2018, we have seen several 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 training sessions and awareness campaigns.

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

In 2018, OMV Petrom reassessed its strategic risk portfolio during five dedicated meetings with the Executive Board members. The discussions focused on mitigating actions proposed by the appointed risk owners and an update of the risk developments over the recent period.

Additionally, OMV Petrom reassessed its mid-term risk exposures, its financial resilience, and the list of risk mitigating actions. In March and November, the results of the reassessment were submitted in the form of risk management reports to the Executive Board and Supervisory Board's Audit Committee.

Internal control

The Group has implemented an internal control

system which includes activities aiming at preventing or detecting undesirable events and risks, such as fraud, errors, damages, non-compliance, unauthorized transactions, and misstatements in the 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. Group-wide values and principles (e.g. business ethics) and organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules, and segregation of duties) are defined and adhered to within this system.
Assessment of process and compliance risks	Generally, all business, management and support processes are completed 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 (e.g. 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 the Internal Audit department evaluate the effective implementation of the internal control system.

OMV Petrom's successful management and operations mean creating value for all stakeholders and require systematically and transparently managing the Company while applying the best corporate governance principles. To attain this objective, OMV Petrom has implemented a rigorous Management System. The Management System represents the set of policies, processes and regulations whose purpose is to manage and control the organization in order to achieve its objectives through optimized utilization of resources. The Management System provides a structured framework of processes and regulations and describes what the company does, how it is organized, how it manages its business and who is responsible for what. It also ensures

the continuous improvement of OMV Petrom's competitiveness by providing appropriate methods and tools.

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 the 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.

Four-eye principle applied in the financial reporting process

The Group has an Accounting Manual that is implemented consistently in all Group companies to ensure the application of uniform accounting for the same business cases. The Group Accounting Manual is updated regularly based on changes in International Financial Reporting Standards. Furthermore, the organization of the Accounting and Financial Reporting departments is set up to achieve a high-quality financial reporting process. Roles and responsibilities are specifically defined and a revision process – the “four-eye principle” – is applied to ensure the 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 the 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 2018. This report will be published together with the consolidated financial statements of OMV Petrom for the year ended December 31, 2018.

Subsequent events

Please refer to Note 38 in the Consolidated Financial Statements.

Outlook 2019

For the year 2019, we expect the **average Brent oil price** to be at USD 65/bbl⁹.

We expect the **refining margins** to be at a similar level as in 2018. Also the **demand for oil products, gas and power** is expected to be broadly similar to 2018.

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

At the end of 2018, the government approved the Emergency Ordinance no. 114, thereby introducing measures that have an impact on several sectors. According to its provisions, for the period from April 2019 to February 2022, the sale price for gas from current domestic production is capped at 68 RON/MWh and gas producers must supply prioritarily the households' suppliers.

The same ordinance brings changes in the electricity sector applicable during March 2019 - February 2022, including regulated prices for households and the obligation for power producers to supply prioritarily the suppliers of last resort, in order to cover households' consumption.

Furthermore, a financial contribution of 2% is applied to the operations of ANRE license holders for activities in the field of electricity, electricity and heat in cogeneration (for the electricity component) and natural gas; the basis for this contribution will be calculated according to ANRE regulations.

The ordinance also extends the validity of the 0.5% tax on crude oil revenues until the end of December 2021.

We are currently assessing the impact of the ordinance on our operations.

At the Group level, we expect to generate a **positive free cash flow after dividends. CAPEX** (including capitalized exploration and appraisal) is currently anticipated to be around RON 3.7 bn, of which about 75% in Upstream. This is reduced by 14% yoy, mainly caused by the revisiting of our investment plans in terms of size and pace, as we need to understand the investment climate, characterized by higher fiscal and legislative volatility recently.

With regard to our **Neptun Deep project**, we note that the current legislative environment does not provide the necessary prerequisites for a multi-billion investment decision. We remain keen to see the Black Sea developed and we will continue the dialogue with the authorities to understand the way forward.

Similar demand for our products and refining margin expected in 2019

⁹ The budget is based on the assumption of 70 USD/bbl for Brent oil price for 2019.

Following the encouraging results of the pilot phase of 15 MyAuchan convenience stores in Petrom branded filling stations, we are looking to extend the **partnership with Auchan**.

A **sustainable cost base** supported by ongoing efficiency programs is even more crucial in the context of the current volatile regulatory environment.

In **Upstream**, we will strive to contain the average daily production decline at around 5% yoy, excluding portfolio optimization. We will continue to focus on the most profitable barrels; as such, the transfer of nine marginal fields to Mazarine Energy Romania became effective as of March 1, 2019, with the divestment process for further marginal fields ongoing. We plan to drill around 100 new wells and sidetracks and maintain a constant level of workovers yoy, while exploration expenditures are estimated to be around RON 380 mn.

In **Downstream Oil**, the refinery utilization rate is targeted at around 94%.

In **Downstream Gas**, we expect relatively similar gas sales volumes and higher net electrical output vs. 2018. A four-week planned shutdown of the Brazi power plant will take place in Q2/19: two weeks for full capacity and two weeks for half capacity.

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 2018 will be published by June 30, 2019.

OMV Petrom
will publish the
Sustainability Report
for 2018 until June 30

Corporate governance report

OMV Petrom is governed in a two-tier system

High corporate governance standards since 2010

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 has been governed in a two-tier system in which the Executive Board manages the daily business and operations of the Company, whereas 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 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 Supervisory Board have always paid due attention to their duty of care and loyalty. Hence, the Executive Board and 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 has continued 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 the 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. At least 30 days before the GMS, the convening notice is published 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 the first convening, the quorum requirements are met if the shareholders representing more than half of the share capital of the Company are present, with decisions being validly passed with

the affirmative vote of shareholders representing the majority of share capital of the Company. The same rules apply both to the 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 a 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 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. 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 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, among other 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.

In addition, shareholders have 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 withdraw from the Company and request the Company acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders holding, individually or jointly, at least 5% of the

One share, one vote,
one dividend

share capital, may request the calling of a GMS. Such shareholders also have 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.

Rights of GDR holders

As endorsed on each GDR certificate, GDR holders have the rights set out in the terms and conditions of the GDRs. 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

who were 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 2018, the Supervisory Board consisted of the following members: 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.

During 2018, there was only one change in the membership of the Supervisory Board. As of April 26, 2018, following Johann Pleininger's waiver of his mandate as member of the Supervisory Board, Christopher Veit was appointed as member of the Supervisory Board until April 28, 2021. Moreover, the Ordinary GMS appointed Sevil Shhaideh, interim member as of October 26, 2017, as member of the Supervisory Board until April 28, 2021.

Herein below is the composition of the Supervisory Board as effective at the end of 2018 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 several different functions between 1987 and 1996, he was appointed 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 GmbH. 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 Board. Starting July 1, 2015, Rainer Seele has been CEO and Chairman of the OMV Aktiengesellschaft Executive Board. Rainer Seele was first elected an OMV Petrom

Supervisory Board member by the Ordinary GMS dated September 22, 2015.

Reinhard Florey (1965) – Deputy President

Reinhard Florey graduated with a degree in Mechanical Engineering and Economics from Graz University of Technology while also completing his music studies at the Graz University of Fine Arts. He then 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.

Reinhard Florey was first elected an OMV Petrom Supervisory Board member 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 completed 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 to Austria in 1990 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 as well as Gas & Power).

Manfred Leitner was first elected an OMV Petrom Supervisory Board member by the Ordinary GMS dated April 26, 2011.

Christopher Veit (1958)

Christopher Veit graduated in mechanical engineering from Höhere Technische Bildungsanstalt Kapfenberg and also in petroleum

engineering from Montan University Leoben. He joined OMV Group in 1986, where he held various executive and management positions. Since 1 January 2016, he holds the position as Senior Vice-president of Exploration, Development & Production within OMV Exploration & Production GmbH.

Christopher Veit was first elected an OMV Petrom Supervisory Board member by the Ordinary GMS dated April 26, 2018.

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. From January 2013 to June 2016, he was Senior Vice President of Corporate Finance within the OMV Aktiengesellschaft. Since July 2016 he has held the position as Senior Vice-President of Corporate Finance & Controlling within the OMV Aktiengesellschaft.

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

Sevil Shhaideh (1964) – independent^{vi}

Sevil Shhaideh graduated from the Faculty of Economics, Planning and Cybernetics at the Academy of Economic Sciences from Bucharest and earned a master's degree in the Management of Business Projects from the Ovidius University, Constanta. Moreover, she is specialized in a variety of fields such as project management, public administration, quality management and financial auditing. Sevil Shhaideh has 20 years of experience as a public servant within local public administration. Starting 2012, she held various positions within the Government of Romania, 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. Her main responsibilities involved regional development, European projects management and public administration activities.

Three independent members in the Supervisory Board

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

Sevil Shhaideh was first elected an OMV Petrom Supervisory Board member by the Ordinary GMS dated April 26, 2018.

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

Radu-Spiridon Cojocaru graduated from the Faculty of Applied Electronics, at the Politehnic Institute of Bucharest. He is a 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 the National Securities Commission (currently the Financial Supervisory Authority), Bucharest Stock Exchange, Central Depository, 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 of Member of the Chamber of Deputies within the Romanian Parliament between 1996 and 2000, and was a member of the Commission for Economic Policies, Reform and Privatization where he contributed to the framing of the legislation in the field, including the budget, and to the supervision of some public bodies under the control of Parliament. He was a member of the presidential commission for the Romania's Country Program between 2016 and 2018. As of 2018, he is member of the National Commission to prepare Romania's entry into the Eurozone.

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

Joseph Bernhard Mark Mobius (1936) – independent ^{vii, viii}

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. After his departure from Franklin Templeton in January 2018, Mark Mobius established a new firm Mobius Capital Partners LLP, as a Co-Founder in March 2018. Mark Mobius was first elected an OMV Petrom Supervisory Board member by the Ordinary GMS dated April 29, 2010.

Jochen Weise (1956) – independent ^{vii}

Jochen Weise graduated in Law from Universities of Bochum and Bonn, Germany. He has held non-executive positions as a Supervisory Board member of the 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 and August 2010, Executive Vice President Gas Supply & Trading, between January 2003 to March 2004, at E.ON Ruhrgas AG, and Director Commercial Sales at Deutsche Shell GmbH, between April 1998 and December 2001.

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

Main duties and powers of the Supervisory Board

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;
- ▶ 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.

Mr. Mobius
independence
status changed to
independent starting
2019

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

^{viii} Joseph Bernhard Mark Mobius independence status changed from non-independent to independent starting 2019.

Details on the Supervisory Board works and activities in 2018, 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 Supervisory Board 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 preparing resolutions to be passed by the Supervisory Board itself, without preventing the entire Supervisory Board from dealing with matters assigned to the committees. The special committees established at the level of the Supervisory Board are the Audit Committee and the Presidential and Nomination Committee.

Audit Committee

The Audit Committee is currently composed of four members, including the President of the Supervisory Board and the Deputy President of

the Supervisory Board, appointed by decision of the Supervisory Board from among its members. During 2018, there were no changes in the membership of the Audit Committee. Therefore, at the end of 2018, 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.

Main duties and powers of the Audit Committee

The main duties and powers of the Audit Committee according to the Audit Committee's Terms of Reference focus 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 2018 are included in the Supervisory Board Report.

Duties and powers of the Audit Committee set in its Terms of Reference

New EB members
appointed in 2018:
CEO and EB members
for Downstream Oil
and Downstream Gas

Audit Committee organization

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

The Presidential and Nomination Committee is composed of four members appointed by the Supervisory Board among its members. During 2018, there were no changes in the membership of the Presidential and Nomination Committee. Therefore, at the end of 2018, 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). 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 ending on April 17, 2019.

At the beginning of 2018, the Executive Board was composed of the following members: Mariana Gheorghe (CEO and President), Stefan Waldner (CFO and member), Peter Rudolf Zeilinger (member in charge of Upstream activity), Neil Anthony Morgan (member in charge of Downstream Oil activity) and Lăcrămioara Diaconu-Pințea (member in charge of Downstream Gas activity).

The Supervisory Board approved on January 9, 2018, the appointment of a new President of the Executive Board and CEO, Christina Verchere, following Mariana Gheorghe's waiver of her mandate as President of the Executive Board and CEO of OMV Petrom. Christina Verchere took over the position as of May 1, 2018, her appointment being made for the remaining term of the mandate granted to Mariana Gheorghe, until April 16, 2019.

The Supervisory Board approved on April 26, 2018 the appointment of Franck Neel as new Executive Board member in charge of Downstream Gas activity following Lăcrămioara Diaconu-Pințea's waiver of her mandate. Franck Neel took over the position as of July 1, 2018, his appointment being made for the remaining term of the mandate granted to Lăcrămioara Diaconu-Pințea, until April 16, 2019.

Moreover, the Supervisory Board approved the appointment of Alina-Gabriela Popa as new CFO and member of the Executive Board of OMV Petrom as of April 17, 2019, following Stefan Waldner's announcement of his unavailability for such positions beyond the remaining term of his mandate ending on April 16, 2019.

The Supervisory Board also approved on June 22, 2018 the appointment of Radu-Sorin Căprău as new member of the Executive Board, in charge of Downstream Oil activity following Neil Anthony Morgan's waiver of his mandate. Radu-Sorin Căprău took over the position as of October 1, 2018, his appointment being made for the

remaining term of the mandate granted to Neil Anthony Morgan, until April 16, 2019.

Therefore, at the end of 2018, as well as at the date of this report, the Executive Board has the following composition:

Christina Verchere (1971)

Chief Executive Officer and President of the Executive Board

Christina Verchere holds a Master degree in Economics Science from the University of Aberdeen, Scotland. She started her career in 1993 and has spent over 20 years with an oil and gas supermajor, where she held numerous leadership positions in the UK, the US, Canada and Indonesia. From 2012 to 2014, she has been the Regional President Canada of BP located in Calgary and from 2014 to 2018, she has been the Regional President of the Asia Pacific region, located in Jakarta, Indonesia. She was appointed Chief Executive Officer and President of the Executive Board of OMV Petrom as of May 1, 2018.

Stefan Waldner (1977)

Chief Financial Officer

Stefan Waldner holds a master's degree 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 completed 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 the 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.

Peter Rudolf Zeilinger (1965)

Responsible for Upstream

Peter Zeilinger holds a Master 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 the

OMV Group as well as in OMV Petrom, including the position as OMV Petrom's Head of Domestic Assets from 2008 to 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 as of April 1, 2016.

Radu-Sorin Căprău (1974)

Responsible for Downstream Oil

After graduating the Faculty of Management from the University of Economic Studies in Brasov, Radu Căprău started his career in the sales area, before joining OMV in 2000 as Area Manager for OMV Romania. Since then, he held various management positions within OMV Group in Romania and Bulgaria, being responsible for Retail, Supply & Sales and Petrom Aviation. In 2018, he was the Head of Crude Supply & Trading within OMV Refining & Marketing GmbH in Vienna. He was appointed member of the OMV Petrom Executive Board as of October 1, 2018.

Franck Albert Neel (1970)

Responsible for Downstream Gas

Franck Neel studied Energy at the University of Rouen and received an Engineer Degree and then followed a Master of Mechanical Engineering at Cranfield University in United Kingdom. Later on, he earned an Executive Degree from the London Business School. Franck Neel spent 25 years working for the Group Engie. Thus, he started his career at Gaz de France in the engineering department, where he spent seven years, and then moved to the Marketing and Sales with different functions in different countries such as France, Czech Republic, Hungary, Netherlands, Italy and United Kingdom before joining OMV Petrom. He was appointed member of the OMV Petrom Executive Board as of July 1, 2018.

Main duties and powers of the Executive Board

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

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

EB composition at the date of the report

- 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 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 accounting, risk management and internal controlling systems which meet 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

The 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 a procedure may not be used for resolutions pertaining to the annual financial statements of the Company or its registered share capital.

In 2018, the Executive Board met 55 times in person and passed resolutions by circulation on 7 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.

In 2018, the Executive Board met 55 times in person

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 to the Group Sustainability strategy and strives for diverse teams and specifically, at management level, aims to increase female representation in Senior Leadership roles to 25% by 2025. The Company supports this through a number of initiatives such as mentoring, succession planning, and specific training addressing topics like unconscious bias.

OMV Petrom has two women in the management bodies: Christina Verchere, the CEO and President of the Executive Board and Sevil Shhaideh, member of the Supervisory Board. Moreover, at the end of 2018, around 30% of the first line directors reporting to the Executive Board were women, whilst the percentage of women in senior leadership roles in total (senior vice presidents, directors, head of departments and senior advisors) was around 23%. The proportion of women in the OMV Petrom Group as a whole was 22% at year end.

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

Basic Principles of Remuneration

OMV Petrom targets to occupy a strong market position with compensation levels designed to be competitive in the respective labour markets, ideally in reference to the chemical, oil and gas business, in order to attract, motivate and retain the best qualified talents.

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 Group strategy "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.

Remuneration packages are set to achieve internal equity, but at the same time to remain externally competitive with the local and international markets in which the Company operates and to make people feel encouraged to create sustainable results and add value to the business.

OMV Petrom Group uses a variety of reward elements to strengthen its position as an attractive employer in the oil and gas business. The reward structure is specifically set up for OMV Petrom and it reflects the reward philosophy and principles of the Company.

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.

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.

OMV Petrom supports gender diversity

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 other OMV Petrom Group 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 and 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.

Corporate governance statement^{ix}

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 the terms of reference/ responsibilities for the Board and key management functions of the company, applying, among others, the General Principles of this Section.	✓		Since April 2007, OMV Petrom has been 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. The Company's corporate governance structure and principles, as well as the 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, and in other relevant internal regulations.
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.	✓		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. Moreover, the Company has in place internal rules on how to deal with conflicts of interest.
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 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>Upon (re)appointing each Supervisory Board member, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code (which are substantially similar to those provided by the Company law). The independence evaluation consists of an individual personal assessment carried out by the relevant Supervisory Board member and is then followed by an external assessment to confirm the independence resulted following such individual personal assessment, as the case may be.</p> <p>Moreover, for the purpose of preparing 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, 2018.</p> <p>Following this evaluation, it resulted that at all times during 2018 there were three Supervisory Board members that met all the independence criteria provided by the Corporate Governance Code. Starting 2019, four members of the Supervisory Board meet all the independence criteria stipulated by the Corporate Governance Code.</p> <p>Information on the independence status of the members of the Supervisory Board is included on the Company's corporate website, within the About Us section, Supervisory Board 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 the Supervisory Board and Executive Board members' permanent professional commitments and engagements, including executive and non-executive positions in companies and not-for-profit institutions is included in the Supervisory Board and Executive Board members' CVs, available on the Company's corporate website, within the About Us section, Supervisory Board and Executive Board sub-sections.</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 either 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, who supports the works of both the Executive Board and 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.	✓		Based on a Supervisory Board Self-Evaluation Guideline which provides the purpose, criteria, and frequency of such an evaluation, the Supervisory Board undergoes a self-evaluation process on a yearly basis. Initially the self-evaluation was conducted under the leadership of the President of the Supervisory Board. As of June 23, 2017 this responsibility was taken over by the President of the Presidential and Nomination Committee. The outcome of the Supervisory Board's self-evaluation for 2018 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.	✓		The 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 meetings and attendance of the meetings of the Executive Board and the Supervisory Board, including the Audit Committee and the Presidential and Nomination Committee, during 2018, are included in the Supervisory Board Report and Corporate Governance Report. The reports of the Supervisory Board and Executive Board for 2018 are included in the Annual Report and submitted for Ordinary GMS's approval.

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 2018, there were three Supervisory Board members that met all the independence criteria. Starting 2019, four members of the Supervisory Board meet all the independence criteria stipulated by the Corporate Governance Code.</p> <p>Information on the independence status of the members of the Supervisory Board is included on the Company's corporate website, within the About Us section, Supervisory Board 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>As stipulated in the Company's Articles of Association and applicable law, the Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and on the majority of votes of the shareholders. Prior to the Ordinary GMS, their CVs are made available for the consultation of the shareholders. The shareholders can supplement the candidates list for the position of member of the Supervisory Board.</p> <p>In accordance with the Company's Articles of Association, the Executive Board members are appointed by decision of the Supervisory Board based on the majority of votes.</p> <p>On March 23, 2017, the Supervisory Board established a Presidential and Nomination Committee composed of four members appointed from among its members. As members of the Supervisory Board, all members of the Presidential and Nomination Committee are therefore non-executives. At the end of 2018, one member of the Presidential and Nomination Committee was independent. Starting 2019, two members of the Presidential and Nomination Committee are independent.</p> <p>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. Given the fact that the Nomination and Presidential Committee currently has only two independent members, the Company is only "partially compliant" with this provision.</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 from among its members. The members of the Audit Committee are therefore all non-executives.</p> <p>The Audit Committee is composed of four Supervisory Board members. Based on the independence evaluation, it resulted that at all times during 2018, the majority of the Audit Committee members met all independence criteria provided by the Corporate Governance Code. The Audit Committee includes members who have adequate qualifications relevant to the functions and responsibilities of the Audit Committee. In addition, one member has also the necessary financial, auditing and accounting expertise.</p>
<p>B.2. The audit committee should be chaired by an independent non-executive member.</p>		✓	<p>As members of the Supervisory Board, all members of the Audit Committee, including the president of the Audit Committee, are non-executives. Based on the independence evaluation, it resulted that at all times during 2018, the majority of the Audit Committee members met all independence criteria provided by the Corporate Governance Code.</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 believes that the Audit Committee's independence and objectivity as a whole is not impaired by the current membership of the Audit Committee, it aims to become again fully compliant with this provision in the future. As a result, 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.	✓		<p>The Terms of Reference for the Audit Committee detail the roles and functions of the Audit Committee, which mainly consist of the following:</p> <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 internal control system considering the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit Committee, the responsiveness and effectiveness of management to deal 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; ▶ regularly receiving 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; ▶ 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 regarding such services.
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.	✓		

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.	✓		The 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 the Company's statutory documents, including the fact that related party transactions that exceed or may be expected to exceed, either individually or jointly, an annual value of 5% of the Company's net assets in the previous financial year must 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, meaning that the Company only “partially complies” 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 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 experiences, cases that could be considered as jeopardizing its independence or objectivity due to these functional reporting lines.</p> <p>The Company is currently assessing how to fully comply 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, senior management and 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.</p> <p>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 About us section, Corporate Governance sub-section; ▶ Rules and Procedures of the GMS – in the About us section, GMS sub-section; ▶ Detailed professional CVs for all members of the Executive Board and Supervisory Board – in the About us section, Supervisory Board and Executive Board sub-sections; ▶ Current reports and periodic reports – in the Investors section, Investor News and Publications sub-sections; ▶ Convening notices and supporting materials for the GMS – in the About us section, GMS sub-section; ▶ Financial calendar and information on other corporate events – in the Investors section, Financial Calendar and Events sub-sections; ▶ Name and contact information of a person able to provide investors with knowledgeable information on request – in the Investors section, 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 Investors section, Investor News and Publications sub-sections.
<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 Investors section, Shares and GDRs / Dividends sub-section as well as in the About us 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>	✓		<p>The Company has a Forecast Policy which is published on its corporate website in the About us section, Corporate Governance sub-section.</p>
<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>	✓		<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 convening notices for every GMS which describe 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>
<p>D.5. The independent financial auditors should attend the shareholders' meetings when their reports are presented there.</p>	✓		<p>The independent financial auditors attend the Ordinary GMS whereby the annual separate and consolidated financial statements are submitted for approval.</p>

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.	✓		All matters submitted for GMS approval are subject to the Supervisory Board's approval according to Company's internal rules. Moreover, the Annual Report submitted for GMS approval contains a brief assessment of the internal controls and significant risk management system.
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.	✓		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.
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.	✓		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.
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.	✓		OMV Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists to present the financial elements relevant for their investment decision. In 2018, OMV Petrom organized four conference calls following the publication of the quarterly results. In addition, the Company held one-on-one and group meetings and attended analyst and investor conferences, organized in Romania and abroad. For more details, please also see the Annual Report's section relating to OMV Petrom on the capital markets. The Investor Presentations were made available at the time of the meetings / conferences on the corporate website, in the Investors section, Events sub-section.

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 education, social and environmental responsibility, as well as governance, supporting the local communities in which the Company operates.</p> <p>More details may be found in the Sustainability Report for 2018, which will be issued by the Company by June 30, 2019, in accordance with the legal requirements regarding 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, 2018, 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 14, 2019
The Executive Board



Christina Verchere
Chief Executive Officer
President of the EB



Stefan Waldner
Chief Financial Officer
Member of the EB



Peter Zeilinger
Member of the EB
Upstream



Franck Neel
Member of the EB
Downstream Gas



Radu Căprău
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 market capitalization weighted index reflecting the performance of the most traded 15 companies on the BSE's 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) (%)
CV	Curriculum Vitae

EB	Executive Board
EGO	Emergency Government Ordinance
EU, EUR	European Union, euro(s)
EURIBOR	Euro Interbank Offer Rate – the reference rate for European banks in interbank loans denominated in EUR
EPS	Earnings per share = Net income attributable to stockholders divided by weighted number of shares
FRD	Field redevelopment
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GMS	General Meeting of Shareholders
HSSE	Health, Safety, Security and Environment
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
JV	Joint venture
LPG	Liquefied Petroleum Gas
LSE	London Stock Exchange
LTIR	Lost time injury rate = This figure assists in the evaluation of the average injury frequency with more than one day of work lost 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)
n.m.	not meaningful; the deviation is above (±) 500% or the comparison is made between values of opposite signs
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
OPCOM	The administrator of the Romanian electricity market
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) (%)
ROBOR	Romanian Interbank Offer Rate – the reference rate for Romanian banks in interbank loans denominated in RON
RON	New Romanian leu
RRR	Reserve Replacement Rate
S.A.	Romanian JSC - Joint stock company (Societate pe Acțiuni)
Special items	Special items are expenses and income reflected in the financial statements that are disclosed separately, as they are not part of underlying ordinary business operations. They are being disclosed separately in order to enable investors to better understand and evaluate OMV Petrom Group's reported financial performance.
t, kt	metric tonne(s), thousand tonnes; 1t of crude oil = 7.193 bbl for Romania or 7.78 bbl for Kazakhstan
TP	Target Price
TWh	terawatt hour(s)
US(A)	United States (of America)
UK	United Kingdom
USD	United States dollar(s)
yoy	year-on-year

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FUELS



GAS



ELECTRICITY

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, 2018 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, 2018, 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.

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

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 19,892 million as at 31 December 2018.</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 or an impairment may be reversed 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 and life of field production volumes. A triggering events analysis was performed in accordance with the aforementioned indicators. An impairment test was performed for those cash generating units where triggers for impairment or reversal of impairment were identified and a reversal of impairment of RON 430 million was recorded.</p> <p>The Group's disclosures about property, plant and equipment and related triggering events analysis, as well as the reversal of previously recorded impairment are included in Note 2 (Judgements, Estimates and Assumptions), Note 7 (Property, Plant and Equipment) and Note 20 (Other operating income) 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, as well as management's assessment of the recoverability of the carrying value of property, plant and equipment of the cash generating unit for which triggering events were identified. Specifically, our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> ▶ Analysed and evaluated management's assessment of the existence of impairment or impairment reversal indicators (triggering events). For that purpose, we compared the main assumptions used in the impairment test performed in 2015 (oil prices, production volumes and oil and gas reserves) with the current forecasts approved as part of the Group's mid-term planning assumptions. Also, we checked if there are significant downward revisions of oil and gas reserves to determine if they represent potential impairment indicators; ▶ 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; <p>In addition, where an impairment test was carried out:</p> <ul style="list-style-type: none"> ▶ We have assessed the historical accuracy of management's budgets and forecasts (in terms of production volumes and operating costs) by comparing them to actual performance; ▶ Compared the assumptions used within the future cash flow models to approved budgets and business plans; ▶ 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; ▶ Involved our valuation specialist to assist us in evaluation of key assumptions and methodology used for the determination of the discount rate; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

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 2,970 million at 31 December 2018.</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 license, the likelihood of license 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 23 (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"> ▶ Inquired whether the management has the 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 considered 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 a sample of exploration and evaluation 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 license; ▶ 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.

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

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:</p> <ul style="list-style-type: none"> ▶ production profiles in future cash flow estimates; ▶ depreciation, amortization and impairment charges for the core assets in the Upstream segment. <p>The estimation of oil and gas reserves requires significant judgement and assumptions made by management and engineers due to the technical uncertainty in assessing quantities.</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 oil and gas 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 both management internal and external specialists and the objectivity and independence of external specialist, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; ▶ Analysed the report of the management's external specialist on their review of Group's estimated oil and gas reserves as at 31 December 2017; ▶ Tested whether significant additions or reductions in oil and gas reserves were made in the period in which the new information became available and in compliance with the Group's Reserves and Resources 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.

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

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 6,239 million and RON 223 million respectively at 31 December 2018.</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 evidence 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 the analysis of 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 1,590 million as at December 31, 2018 and the environmental liabilities in Downstream Oil with a total net present value of RON 171 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 2 (Judgements, Estimates and Assumptions) and 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 discussed 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; ▶ Involved our valuation specialists to assist us in the analysis of discount rates and inflation rates; ▶ 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 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

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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.

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From the matters communicated with those charged with governance, we determine those matters 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 Director's Report, as included in the Annual Report, we have read the Directors' Report and report that:

- a) in the 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, 2018;
- b) the 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, 2018, we have not identified information included in the 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 26, 2018 to audit the consolidated financial statements for the financial year end December 31, 2018. 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 8 years covering the financial periods end December 31, 2011 till December 31, 2018.

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 19, 2019.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the

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European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

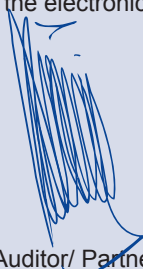
In addition to statutory audit services and services disclosed in the notes to the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL

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

Registered in the electronic Public Register under No. 77



Name of the Auditor/ Partner: Andreas Hadjidamianou
Registered in the Electronic Public Register under No. 3357

Bucharest, Romania
14 March 2019

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Intangible assets	6	3,058.95	2,611.13
Property, plant and equipment	7	26,749.09	27,143.50
Investments in associated companies	8	58.29	49.62
Other financial assets	9	2,165.22	2,317.15
Other assets	10	84.11	59.94
Deferred tax assets	18	1,433.00	1,545.35
Non-current assets		33,548.66	33,726.69
Inventories	11	2,151.54	2,082.80
Trade receivables	9	1,674.23	1,513.03
Other financial assets	9	195.19	243.96
Other assets	10	476.14	507.83
Cash and cash equivalents		5,609.43	3,979.05
Current assets		10,106.53	8,326.67
Assets held for sale	12	128.95	5.43
Total assets		43,784.14	42,058.79
EQUITY AND LIABILITIES			
Share capital	13	5,664.41	5,664.41
Reserves		25,703.21	22,815.26
Stockholders' equity		31,367.62	28,479.67
Non-controlling interests		0.48	(58.64)
Total equity		31,368.10	28,421.03
Provisions for pensions and similar obligations	14	211.38	224.84
Interest-bearing debts	15	281.87	558.68
Provisions for decommissioning and restoration obligations	14	5,992.95	7,274.81
Other provisions	14	190.27	274.24
Other financial liabilities	16	155.63	160.51
Other liabilities	17	14.84	16.08
Deferred tax liabilities	18	20.49	-
Non-current liabilities		6,867.43	8,509.16

The notes on pages 94 to 186 form part of these consolidated financial statements.

	Notes	December 31, 2018	December 31, 2017
Trade payables	16	3,049.66	2,805.44
Interest-bearing debts	15	267.43	328.62
Income tax liabilities		228.47	80.70
Other provisions and decommissioning	14	690.29	904.33
Other financial liabilities	16	388.34	371.25
Other liabilities	17	821.36	638.26
Current liabilities		5,445.55	5,128.60
Liabilities associated with assets held for sale	12	103.06	-
Total equity and liabilities		43,784.14	42,058.79

These consolidated financial statements were approved on March 14, 2019.



Christina Verchere,
Chief Executive Officer



Stefan Waldner,
Chief Financial Officer



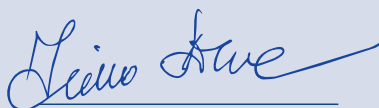
Peter Zeilinger,
Member of the EB
Upstream



Franck Neel,
Member of the EB
Downstream Gas



Radu Căprău,
Member of the EB
Downstream Oil



Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

The notes on pages 94 to 186 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2018	December 31, 2017
Sales revenues	19, 28	22,523.24	19,435.08
Other operating income	20	672.10	363.57
Net income from equity-accounted investments	21	9.51	8.36
Total revenues and other income		23,204.85	19,807.01
Purchases (net of inventory variation)		(8,040.24)	(6,697.53)
Production and operating expenses		(3,139.79)	(3,161.57)
Production and similar taxes		(1,240.55)	(929.38)
Depreciation, amortization and impairment charges	23	(3,180.13)	(3,345.37)
Selling, distribution and administrative expenses		(1,977.47)	(1,971.04)
Exploration expenses		(174.27)	(308.28)
Other operating expenses	22	(239.41)	(123.49)
Operating Result	28	5,212.99	3,270.35
Interest income	24	162.24	92.70
Interest expenses	24	(435.60)	(398.76)
Other financial income and expenses	25	(26.06)	(60.17)
Net financial result		(299.42)	(366.23)
Profit before tax		4,913.57	2,904.12
Taxes on income	26	(835.78)	(414.81)
Net income for the year		4,077.79	2,489.31
thereof attributable to stockholders of the parent		4,078.10	2,490.81
thereof attributable to non-controlling interests		(0.31)	(1.50)
Basic earnings per share (RON)	27	0.0720	0.0440

These consolidated financial statements were approved on March 14, 2019.



Christina Verchere,
Chief Executive Officer



Stefan Waldner,
Chief Financial Officer



Peter Zeilinger,
Member of the EB
Upstream



Franck Neel,
Member of the EB
Downstream Gas



Radu Căprău,
Member of the EB
Downstream Oil



Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

The notes on pages 94 to 186 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

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

	December 31, 2018	December 31, 2017
Net income for the year	4,077.79	2,489.31
Exchange differences from translation of foreign operations	15.84	41.53
Unrealized gains on hedges	5.02	-
Total of items that may be reclassified ("recycled") subsequently to the income statement	20.86	41.53
Remeasurement gains on defined benefit plans	9.03	10.16
Total of items that will not be reclassified ("recycled") subsequently to the income statement	9.03	10.16
Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	(12.50)	25.16
Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(1.46)	(1.63)
Total income tax relating to components of other comprehensive income	(13.96)	23.53
Other comprehensive income/ (loss) for the year, net of tax	15.93	75.22
Total comprehensive income for the year	4,093.72	2,564.53
thereof attributable to stockholders of the parent	4,095.75	2,559.94
thereof attributable to non-controlling interests	(2.03)	4.59

The notes on pages 94 to 186 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, 2018

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

Consolidated statement of changes in equity for the year ended December 31, 2018

	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, 2018	5,664.41	22,765.94	-	(126.27)	175.61	(0.02)	28,479.67	(58.64)	28,421.03
Effect of initial application of new accounting standards (IFRS 9)	-	(4.93)	-	-	-	-	(4.93)	-	(4.93)
Adjusted balance January 1, 2018	5,664.41	22,761.01	-	(126.27)	175.61	(0.02)	28,474.74	(58.64)	28,416.10
Net income/(loss) for the year	-	4,078.10	-	-	-	-	4,078.10	(0.31)	4,077.79
Other comprehensive income/(loss) for the year	-	7.58	4.22	(55.60)	61.45	-	17.65	(1.72)	15.93
Total comprehensive income/(loss) for the year	-	4,085.68	4.22	(55.60)	61.45	-	4,095.75	(2.03)	4,093.72
Dividends distribution	-	(1,132.88)	-	-	-	-	(1,132.88)	(0.08)	(1,132.96)
Change in non-controlling interests and other	-	(60.71)	-	(9.39)	0.11	-	(69.99)	61.23	(8.76)
Balance at December 31, 2018	5,664.41	25,653.10	4.22	(191.26)	237.17	(0.02)	31,367.62	0.48	31,368.10

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

The notes on pages 94 to 186 form part of these consolidated financial statements.

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.

The notes on pages 94 to 186 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2018	December 31, 2017
Profit before tax		4,913.57	2,904.12
Adjustments for:			
Interest income	24	(114.17)	(49.52)
Interest expenses and other financial expenses	24, 25	90.43	109.87
Net movement in provisions and allowances for:			
- Investments		1.17	-
- Inventories		(12.59)	(40.46)
- Receivables		42.19	89.98
- Pensions and similar liabilities		(4.53)	10.70
- Decommissioning and restoration obligations		46.65	39.60
- Other provisions for risk and charges		(74.58)	(192.78)
Discounting / Write-off of receivables and other similar items		84.86	154.22
Income from associated companies	8	(8.59)	(6.14)
Gain on transfer of business	32	-	(3.14)
Net gain on disposal of Group companies and other investments	32	-	(1.71)
Gain on disposal of non-current assets	20, 22	(6.82)	(16.73)
Depreciation, amortization and impairment, net	23	2,872.32	3,580.35
Other non-cash items		42.10	49.09
Interest received		108.60	40.59
Interest and other financial costs paid		(92.20)	(67.97)
Tax on profit paid		(535.78)	(447.04)
Cash generated from operating activities before working capital movements		7,352.63	6,153.03
Increase in inventories		(88.00)	(178.96)
Increase in receivables and other assets		(217.78)	(212.94)
Increase in liabilities		338.23	193.20
Cash flow from operating activities		7,385.08	5,954.33

The notes on pages 94 to 186 form part of these consolidated financial statements.

	Notes	December 31, 2018	December 31, 2017
Investments			
Intangible assets and property, plant and equipment		(4,327.44)	(2,606.72)
Disposals			
Proceeds in relation to non-current assets		53.73	27.78
Proceeds from transfer of business	32	-	52.48
Proceeds from sale of Group companies, net of cash disposed	32	13.21	79.78
Proceeds from disposal of other investments		-	0.43
Cash flow from investing activities		(4,260.50)	(2,446.25)
Net repayments of borrowings	32	(371.45)	(682.29)
Dividends paid		(1,122.80)	(842.18)
Decrease in non-controlling interest		(1.01)	-
Cash flow from financing activities		(1,495.26)	(1,524.47)
Effect of foreign exchange rate changes on cash and cash equivalents		1.06	(0.56)
Net increase in cash and cash equivalents		1,630.38	1,983.05
Cash and cash equivalents at the beginning of the year		3,979.05	1,996.00
Cash and cash equivalents at the end of the year		5,609.43	3,979.05

The notes on pages 94 to 186 form part of these consolidated financial statements.

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, 2018 and 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%

As of December 31, 2018 the number of Global Depositary Receipts (GDRs) is 237,922, equivalent of 35,688,300 ordinary shares, representing 0.063% of the share capital.

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

The 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 33.

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 36.

Changes in estimates are accounted for prospectively.

Correction of material prior period errors is made retrospectively, through 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 the 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 in accordance with international and industry agreed standards based on the availability of geological and engineering data, reservoir performance data, drilling of new wells and commodity prices. 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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2018 is shown in Notes 6 and 7.

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. Downward changes in the expected future costs or postponement in the future affect both the provision and the related asset, to the extent that there is sufficient carrying amount, otherwise the provision is reversed to income statement.

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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

Impairment testing in Upstream

In 2018, based on management estimations regarding long term Brent oil price and production volumes, a triggering events analysis was performed and an impairment test was done where triggers for impairment or reversal of impairment were identified.

The nominal oil price assumptions and the RON/USD exchange rate used for impairment testing are mentioned below:

	2019	2020	2021	2022	2023
Brent oil price (USD/bbl)	70	70	75	75	75
RON/USD exchange rate	3.96	3.96	3.96	3.96	3.96
Brent oil price (RON/bbl)	277	277	297	297	297

The long-term price assumptions from 2024 onwards are derived from USD 75 per barrel for Brent oil price, inflated for the remaining life of each asset.

The key valuation assumptions for the recoverable amounts of Upstream assets are the oil and natural gas prices, production volumes and the discount rates. The production profiles were estimated based on past experience and represent management's best estimate of future production. The cash-flow projections for the first five years are based on the mid-term plan and thereafter on a "life of field" planning, and therefore cover the whole life term of the field.

Following the impairment test performed, the reversal of an impairment previously recorded amounting to RON 430.40 million was recognized in Romania as at December 31, 2018.

The after-tax discount rate used was 9.61%. The recoverable amount was based on the value in use.

Impairment testing in Downstream

In 2018, based on management estimations regarding long term power market development in respect of spark spreads (being the difference between the electricity prices and the cost of gas and cost of CO₂ certificates) and net electrical output (being the power quantity produced), it was concluded that there are no triggering indicators for performing an impairment test for Brazi gas-fired power plant.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

As of 31 December 2017, OMV Petrom Group 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.

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 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 recoverability of the receivable from the Romanian State, which is recognized based on the privatization agreement. 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.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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, 2018, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2018, 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, 2018	11	1
Included for the first time	-	-
Deconsolidated during the year	-	-
As at December 31, 2018	11	1
Romanian companies	5	1
Foreign companies	6	-

Please refer to Note 31 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, 2018 and December 31, 2017.

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.

Investments in associated companies are accounted for using the equity method, under which the investment is initially recognized at cost and subsequently adjusted for the Group's share of the profit or loss less dividends received and the Group's share of other comprehensive income and other movements in equity. 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. In case the net investment in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. CONSOLIDATION (continued)

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 recognizes its share of the changes and discloses it in the consolidated 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.

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, 2018 and 2017, 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.

3. CONSOLIDATION (continued)

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.

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 35.

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 2018.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (including clarifications) from January 1, 2018. The effects of these standards are described in the following paragraphs.

Additionally, the Group has adopted the following amended standards with a date of initial application of January 1, 2018:

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

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 were not applicable for the Group.

► **IAS 40: Transfers to Investment Property (Amendments)**

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 were not applicable for the Group.

► **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

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. The adoption of this interpretation did not have a significant impact on the consolidated financial statements.

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

► **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.

This improvement did not have a significant impact on the consolidated financial statements of the Group.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

a) IFRS 9 Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

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 also implements a new impairment model based on expected credit losses. In addition, changes to hedge accounting have been made with the objective of better representing the effect of risk management activities that an entity adopts to manage exposures.

Except for hedge accounting, IFRS 9 was applied retrospectively, using the option of simplified initial application". As permitted by IFRS 9, the Group did not restate the figures of the comparative period, which continue to be reported under IAS 39. The cumulative effect arising from the transition to IFRS 9 was accounted for through an adjustment to the opening balance of the respective position in equity as at January 1, 2018.

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). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

As explained in the notes below, there are no significant differences between the previous measurement categories under IAS 39 and the new measurement categories under IFRS 9 for classes of the Group's financial assets as at January 1, 2018.

Under IAS 39 all trade receivables were measured at amortized cost less any impairment. Upon the application of IFRS 9, however, receivables eligible for factoring are 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 are also 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, following the new classification under IFRS 9 is insignificant.

Available-for-sale financial assets in OMV Petrom Group include investments. As a general rule, IFRS 9 requires that equity instruments be 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 a contingent consideration recognized by an acquirer in a business combination to

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

which IFRS 3 applies. Under IFRS 9, all equity investments are designated as measured at fair value through OCI. There was no impact in Group's equity from classification or measurement of equity investments.

There is no impact on the Group's classification and measurement of financial liabilities, as the new 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 provisions based on forward-looking expected credit losses (ECL), rather than only incurred credit losses, as was the case under IAS 39. IFRS 9 requires the Group recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. In general, the application of the expected credit loss model results in earlier recognition of credit losses 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 net of tax in OMV Petrom Group's equity upon initial application of IFRS 9 is RON (4.93) million (see Notes 9 and 26).

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 the consolidated financial statements in respect of hedge accounting.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced the previous 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.

The Group has adopted the new standard on January 1, 2018 using the modified retrospective method, with the cumulated adjustment from initially applying this standard recognized in the opening balance of retained earnings in the year of initial application. As a result, the Group has not applied the requirements of IFRS 15 to the comparative periods presented.

Under IFRS 15 Revenue from Contracts with Customers and IFRS 15: Revenue from Contracts with

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Customers (Clarifications), there are more transactions 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 or services. The assessment according to the new standard is 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. Without this change due to IFRS 15 revenues and related costs would have been higher by RON 324.75 million, without any impact on the operating result.

In addition, there are a small number of long-term supply contracts with different prices in different periods where the rates do not reflect the value of the goods at the time of delivery in the Group. Whereas under IAS 18 the invoiced amount was recognized as revenue, under IFRS 15 the revenue is recognized based on the average contractual price. Initial application of IFRS 15 does not have an impact on the Group's retained earnings at January 1, 2018.

The following table summarizes the impact of adopting IFRS 15 on the consolidated income statement and consolidated comprehensive income for 2018. The impact of IFRS 15 on the consolidated statement of financial position and the consolidated cash flow statement was not material.

Consolidated income statement and consolidated statement of comprehensive income

	As reported	Adjustments	Transactions without adoption of IFRS 15
Sales revenues	22,523.24	319.51	22,842.75
Other operating income	672.10	5.24	677.34
Net income from equity-accounted investments	9.51	-	9.51
Total revenues and other income	23,204.85	324.75	23,529.60
Purchases (net of inventory variation)	(8,040.24)	(88.89)	(8,129.13)
Production and operating expenses	(3,139.79)	(1.49)	(3,141.28)
Production and similar taxes	(1,240.55)	-	(1,240.55)
Depreciation, amortization and impairment charges	(3,180.13)	-	(3,180.13)
Selling, distribution and administrative expenses	(1,977.47)	(234.37)	(2,211.84)
Exploration expenses	(174.27)	-	(174.27)
Other operating expenses	(239.41)	-	(239.41)
Operating Result	5,212.99	-	5,212.99

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

	As reported	Adjustments	Transactions without adoption of IFRS 15
Profit before tax	4,913.57	-	4,913.57
Taxes on income	(835.78)	-	(835.78)
Net income for the year	4,077.79	-	4,077.79
there of attributable to stockholders of the parent	4,078.10	-	4,078.10
thereof attributable to non-controlling interests	(0.31)	-	(0.31)
Other comprehensive income for the year, net of tax	15.93	-	15.93
Total comprehensive income for the year	4,093.72	-	4,093.72
thereof attributable to stockholders of the parent	4,095.75	-	4,095.75
thereof attributable to non-controlling interests	(2.03)	-	(2.03)

4.2. 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) IFRS 16 Leases

This standard will replace IAS 17 and sets out new rules for lease accounting. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor").

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. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

The most significant impact is that the Group will recognize new assets and liabilities for its operating

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

leases, unless an exemption from IFRS 16 is applicable. 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.

The recognition of a right-of-use asset and lease liability for the operating leases is expected to lead to an increase in property, plant and equipment and debt of approximately RON 300 million on January 1, 2019. In the consolidated income statement, depreciation charges and interest expense will be reported instead of lease expense. This will lead to an increase in operating result, which will be offset by higher interest expense.

The estimated impact of the adoption of this standard is based on the assessments undertaken to date. The actual impact may still change until the Group presents its consolidated financial statements that include the date of initial application.

OMV Petrom Group will initially apply IFRS 16 on January 1, 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. Instead, the Group will recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application.

The right-of-use assets for previous operating leases will be measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. The Group will apply the various practical expedients for transition. The Group will for example not recognize any right-of-use assets and lease liabilities for contracts which expire in 2019.

b) 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 consolidated financial statements and does not expect it 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. The Group is currently assessing the impact of adopting this amendment on the consolidated financial statements and does not expect it 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 consolidated financial statements 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 circumstances. The Group is currently assessing the impact of adopting this interpretation on the consolidated financial statements and does not expect it 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

requirements. These Amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements and does not expect it to be significant.

► Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. These Amendments have not yet been endorsed by the EU.

► IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements and does not expect it to be significant.

► IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of “material” (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the consolidated financial statements, and does not expect it to be significant.

► The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- ▶ **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.

4.3. 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.

Goodwill is recognized as an asset and reviewed for impairment at least annually. All impairments

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 accounting. Costs related to geological and geophysical activity are expensed as and when incurred. The costs

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 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.

An item of property, plant and equipment and any significant part initially recognized are derecognized

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 consolidated 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. Impairment tests are performed on the level of cash generating units which generate cash inflows that are largely independent of those from other assets or groups of assets.

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 consolidated income statement under depreciation, amortization and impairment charges and under exploration expenses.

If the reasons for impairment no longer apply in a subsequent period, a reversal is recognized in the consolidated income statement. The increased carrying amount related to the reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization and depreciation) had no impairment loss been recognized in prior years.

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.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Non-current assets held under finance lease arrangements are capitalized at the commencement of 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, OMV Petrom Group classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (OCI) or fair value through profit or loss. The classification depends both on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Debt instruments are classified and measured at amortized cost if both of the following conditions are met:

- ▶ the asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ▶ the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method less any impairment losses. Interest income, impairment losses and gains or losses on derecognition are recognized in profit or loss. The Group's financial assets at amortised cost include mainly trade receivables.

OMV Petrom Group recognizes allowances for expected credit losses (ECLs) for financial assets measured at amortized costs. The ECL calculation is based on external or internal credit ratings of the counterparty, associated probabilities of default and loss given default. External credit rating is based mainly on reports issued by well-known rating agencies and is reflected in OMV Petrom Group by grouping financial assets in five risk classes (risk class 1 being the lowest risk category). The probabilities of default used for each risk class, as presented in Note 9, are based on Standard & Poor's average global corporate default rates. A loss given default of 45% was applied for computation of ECL of financial assets which are not credit impaired.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

ECLs are recognized in two stages:

- i. Where there has not been a significant increase in the credit risk since initial recognition, credit losses are measured at 12 month ECLs. The 12 month ECL is the credit loss which results from default events that are possible within the next 12 months. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the definition of "investment grade".
- ii. Where there has been a significant increase in the credit risk since initial recognition, a loss allowance is required for the lifetime ECL, i.e. the expected credit losses resulting from possible default events over the expected life of a financial asset. For this assessment, OMV Petrom Group considers all reasonable and supportable information that is available without undue cost or effort.

Furthermore, OMV Petrom Group assumes that the credit risk on a financial asset has significantly increased if it is more than 30 days past due. If the credit quality improves for a lifetime ECL asset, OMV Petrom Group reverts to recognizing allowances on a 12 month ECL basis. A financial asset is considered to be in default when the financial asset is 90 days past due unless there is reasonable and supportable information that demonstrate that a more lagging default criterion is appropriate. A financial asset is written off when there is no reasonable expectation that the contractual cash flows will be recovered.

For trade receivables a simplified approach is adopted, where the impairment losses are recognized at an amount equal to lifetime expected credit losses. In case there are credit insurances or securities held against the balances outstanding, the ECL calculation is based on the probability of default of the insurer/ securer for the insured/secured element of the outstanding balance and the remaining amount will take the probability of default of the counterparty.

Non-derivative financial assets classified as at fair value through profit or loss include trade receivables from sales contracts with provisional pricing because the contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding. Furthermore, this measurement category includes portfolios of trade receivables held with an intention to sell them. These assets are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Equity instruments may be elected irrevocably as measured at fair value through OCI if they are not held for trading.

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.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Financial assets 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.

Rights to payments to reimburse the Group for expenditure that it is required to settle a liability that is recognized as a provision in accordance with IAS 37 "Provisions, Contingent liabilities and Contingent assets" are outside the scope of IFRS 9. Expenditure recoverable from the Romanian State falls under this category.

The classification and measurement provisions of IFRS 9 were applied retrospectively without restating the figures of the comparative period, which continue to be reported under the previous accounting standard for financial instruments, IAS 39. Differences between the classification and measurement according to IFRS 9 and IAS 39 are disclosed in Notes 4.1. and 9.

Non-derivative financial liabilities

Non-derivative financial liabilities are carried at amortized cost. Long-term liabilities are discounted using the effective interest rate method (EIR).

A financial liability (or a part of a financial liability) is removed from the statement of financial position when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Derivative financial instruments and hedges

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. Unrealized gains and losses are recognized as income or expense, except where hedge accounting is applied. The Group has applied IFRS 9 requirements on hedge accounting.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Those derivatives qualifying and designated as hedges can be (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.

For cash flow hedges, the effective part of the changes in fair value is recognized in other comprehensive income, while the ineffective part is recognized immediately in the income statement.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Where the hedging of cash flows results in the recognition of a non-financial asset or liability, the carrying value of that item is adjusted for the accumulated gains or losses recognized directly in OCI.

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 and measured at fair value. Associated gains or losses are recognized in profit or loss. 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 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 4.3 m) – 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 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 consolidated 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 consolidated other comprehensive income and for other obligations in consolidated 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 consolidated 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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. 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 value of offsetting emission rights is expensed as emission cost.

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 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 consolidated other comprehensive income or equity and not in consolidated 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 consolidated income statement under production and similar taxes.

o) Revenue recognition

Revenues from contracts with customers

Revenue is generally recognized when the performance obligation is satisfied by transferring the control over a product or a service to a customer. It is measured based on the consideration to which is expected to be entitled based on the contract with a customer and excludes amounts collected on behalf of third parties.

When the performance obligation is not yet satisfied, but the consideration from customers is either received or due, OMV Petrom Group recognizes contract liabilities which are reported as other liabilities in the consolidated statement of financial position.

When goods such as crude oil, LNG, oil products and similar goods are sold, the delivery of each quantity

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

unit normally represents a single performance obligation. Revenue is recognized when control of the goods has transferred to the customer, which is the point in time when legal ownership as well as the risk of loss has passed to the customer and is determined on the basis of the Incoterm agreed in the contract with the customer. These sales are done with normal credit terms according to the industry standard.

In the Downstream Oil retail business, revenues from the sale of petroleum products are recognized at a point in time, when products are supplied to the customers. Depending on whether the Group acts as a principal or as an agent for the sale of shop merchandise, revenue and costs related to such sales are presented on a gross or net basis, in the consolidated income statement. The Group acts as principal if it controls the goods before they are transferred to the customer. The Group has control over the goods when it bears the inventory risk before the goods have been transferred to the customers.

A second indicator for having control of the goods before transferring them to the customer is the Group's ability to establish the price of goods. For sales of non-oil products, the Group considers this as being a secondary criterion, therefore, if the Group has the ability to set the price but it does not have inventory risk before transferring the goods to the customer, it acts as an agent in providing the goods. At filling stations, payments are due immediately at the time of purchase.

The Group's gas and power supply contracts include a single performance obligation which is satisfied over the agreed delivery period. Revenue is recognized according to the consumption by the customer and in line with the amount to which the Group has a right to invoice. In some cases, long-term gas supply contracts contain stepped prices, in different periods, where the rates do not reflect the value of the goods at the time of delivery. For these cases, revenue is recognized based on the average contractual price.

In some 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. These contracts contain only one performance obligation which is represented by the availability of supply for the delivery of gas over a certain period. The revenue from fixed charges and the variable fees are recognized as the amount is invoiced to the customer. Gas and power deliveries are billed and paid on a monthly basis.

Gas storage and gas transportation contracts contain a stand-ready obligation for providing storage or transportation services over an agreed period of time. Revenue is recognized according to the amount to which the Group has a right to invoice for those transactions in which it acts in the capacity of principal. These services are billed and paid on a monthly basis.

Power and gas sales are often subject to fees or tariffs for facilitating the transfer of goods and services. When the Group does not control the services related to such fees and tariffs before are transferred to the customer and when it is not involved in the rendering of the service nor does it control the pricing, the Group is only an agent in providing these services.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

As OMV Petrom Group applied the cumulative effect method for transition to IFRS 15, the comparative information has not been restated and continues to be reported under the previous revenue recognition standard IAS 18. Differences between the revenue recognition according to IFRS 15 and IAS 18 are disclosed in Section 4.1 of this note.

As the revenues are recognized in the amount to which has a right to invoice, OMV Petrom Group applies the practical expedient according to IFRS 15.121, in accordance with which the amount for unsatisfied remained performance obligations need not be disclosed.

Other revenues

Other revenues include mainly realized and unrealized net results from commodity sales transactions as well as lease and rental income.

Dividend and interest income

Dividend income 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.

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 original 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 consolidated 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 consolidated other comprehensive income. On disposal of a foreign operation, the component of consolidated 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, 2018 *	Average for the year ended December 31, 2018	Year ended December 31, 2017 *	Average for the year ended December 31, 2017
US dollar (USD)	4.0736	3.9433	3.8915	4.0511
Euro (EUR)	4.6639	4.6535	4.6597	4.5681
Moldavian Leu (MDL)	0.2389	0.2347	0.2283	0.2193
Serbian Dinar (RSD)	0.0394	0.0394	0.0394	0.0377
Bulgarian Leva (BGN)	2.3847	2.3793	2.3825	2.3357

*) 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 consolidated 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, 2018	1,345.58	2,861.22	4,206.80
Exchange differences	0.10	-	0.10
Additions *	(4.12)	548.42	544.30
Transfers (Note 7)	0.03	(0.63)	(0.60)
Disposals **	(3.17)	(121.27)	(124.44)
Balance as at December 31, 2018	1,338.42	3,287.74	4,626.16
ACCUMULATED AMORTIZATION AND IMPAIRMENT			
Balance as at January 1, 2018	1,244.69	350.98	1,595.67
Exchange differences	0.08	-	0.08
Amortization	7.69	-	7.69
Impairment	0.01	87.87	87.88
Disposals	(3.03)	(121.08)	(124.11)
Balance as at December 31, 2018	1,249.44	317.77	1,567.21
CARRYING AMOUNT			
As at January 1, 2018	100.89	2,510.24	2,611.13
As at December 31, 2018	88.98	2,969.97	3,058.95

*) Include the amount of RON (7.43) million reduction in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9), reflected under category "Concessions, licenses and other intangible assets";

**) Include the amount of RON 0.16 million representing decrease from the reassessment of decommissioning asset for exploration wells (under category "Oil and gas assets with unproved reserves").

Oil and gas assets with unproved reserves include mainly investments in Neptun Perimeter from Black Sea.

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, 2018	4,665.11	40,405.99	10,142.35	1,164.08	697.98	57,075.51
Exchange differences	8.75	163.90	24.71	(12.74)	(0.84)	183.78
Additions **	74.26	2,629.01	418.10	26.28	642.26	3,789.91
Transfers *	28.30	(59.54)	296.81	32.44	(297.41)	0.60
Transfers to assets held for sale	(0.46)	(234.03)	(3.08)	(0.51)	(0.07)	(238.15)
Disposals ***	(49.70)	(1,728.52)	(300.05)	(15.04)	(46.78)	(2,140.09)
Balance as at December 31, 2018	4,726.26	41,176.81	10,578.84	1,194.51	995.14	58,671.56
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at January 1, 2018	2,016.53	21,114.78	5,857.63	886.83	56.24	29,932.01
Exchange differences	7.58	146.25	23.46	(13.67)	(1.80)	161.82
Depreciation	186.17	1,942.32	678.12	65.07	-	2,871.68
Impairment	4.80	315.85	4.52	0.97	11.87	338.01
Transfers *	0.66	(0.08)	(0.61)	0.03	-	0.00
Transfers to assets held for sale	(0.10)	(109.49)	(0.51)	(0.14)	-	(110.24)
Disposals	(22.66)	(462.12)	(292.67)	(14.77)	(45.65)	(837.87)
Write-ups	(1.31)	(422.03)	(8.53)	(0.95)	(0.12)	(432.94)
Balance as at December 31, 2018	2,191.67	22,525.48	6,261.41	923.37	20.54	31,922.47
CARRYING AMOUNT						
As at January 1, 2018	2,648.58	19,291.21	4,284.72	277.25	641.74	27,143.50
As at December 31, 2018	2,534.59	18,651.33	4,317.43	271.14	974.60	26,749.09

*) Net amount represents transfers from intangibles See Note 6;

**) Include the amount of RON 7.27 million representing additions through finance lease, mainly for equipment used for production of electricity, and were reduced by the amount of RON 96.00 million in relation to the 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 1.33 million), "Plant and machinery" (RON 94.21 million), and "Other fixtures and fittings, tools and equipment" (RON 0.46 million);

***) Includes the amount of RON 1,267.57 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 182.18 million as at December 31, 2018 (2017: RON 220.70 million).

Expenditure capitalized in the course of construction of tangible and intangible assets is RON 484.00 million (2017: RON 450.00 million).

For details on impairments see Note 23.

8. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2018 and December 31, 2017 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):

	2018	2017
Carrying amount of interests in individually immaterial associates	58.29	49.62
Group's share of:		
- profit from continuing operations (Note 21)	9.51	8.36
- other comprehensive income	0.08	(0.21)
- dividends during the year	(0.92)	(2.22)
Total comprehensive income	8.67	5.93

Carrying amount reconciliation for immaterial associates is as follows:

	Associated companies
Balance as at January 1, 2018	49.62
Additions	-
Share of total comprehensive income of associates (see above)	8.67
Disposals	-
Balance as at December 31, 2018	58.29

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

a) **Trade receivables** are amounting to RON 1,674.23 million as at December 2018 (2017: RON 1,513.03 million).

The credit quality of trade receivables is presented in the table below:

Trade receivables	Expected credit loss rate	Gross carrying amount	Expected credit loss
Risk class 1	0.08%	265.79	0.11
Risk class 2	0.25%	439.00	0.14
Risk class 3	1.25%	893.76	5.51
Risk class 4	10.33%	76.41	1.11
Risk class 5	100.00%	242.47	236.33
Total		1,917.43	243.20

The reconciliation of the ending impairment as at December 31, 2017, in accordance with IAS 39, to the opening impairment as at January 1, 2018 determined in accordance with IFRS 9, as well as the movements in impairment for trade receivables during the year are as follows:

	Trade receivables
January 1, 2018, under IAS 39	251.63
Adjustment on initial application of IFRS 9	0.62
January 1, 2018, under IFRS 9	252.25
Amounts written off	(7.01)
Net remeasurement of expected credit losses	(1.58)
Foreign exchange rate differences	(0.46)
December 31, 2018	243.20

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

b) Other financial assets (net of impairment)

	Liquidity term		
	December 31, 2018	less than 1 year	over 1 year
Expenditure recoverable from Romanian State	1,760.83	-	1,760.83
Derivatives financial assets	50.79	50.24	0.55
Investments	0.67	-	0.67
Other financial assets	548.12	144.95	403.17
Total	2,360.41	195.19	2,165.22

	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

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 1,589.95 million as at December 31, 2018 (2017: RON 1,815.35 million) and the environmental liabilities in Downstream Oil and Upstream with net present value of RON 170.88 million (2017: RON 205.48 million), as these were existing prior to privatization of OMV Petrom S.A.

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 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 6 October 2017, a request to supplement the current arbitration with additional notices of claims in relation to well decommissioning and environmental restoration obligations amounting to RON 134.34 million was submitted to International Chamber of Commerce, in Paris, France. At the beginning of July 2018, the Arbitral Tribunal decided that the supplementary claims submitted are admissible.

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

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.

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 and 20 July 2018, OMV Petrom signed addendums to the financing contract for an increase of the second tranche, respectively of the third tranche of the government grant to be received for Brazi power plant investment. As a consequence, during 2018 the amount of RON 103.43 million was recorded as other financial assets against reduction of cost of fixed assets (Notes 6 and 7) (2017: RON 81.01 million). As of December 31, 2018 the present value of the financial asset representing government grant to be received for Brazi power plant investment was in amount of RON 339.89 million (2017: RON 262.71 million).

As of December 31, 2018, OMV Petrom also has in balance a financial asset recognized in relation to insurance indemnities in Power business division in amount of RON 77.27 million (2017: RON 97.61 million).

Credit quality other financial assets at amortized cost – gross carrying amount:

	Expected credit loss rate	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Risk class 1	0.08%	127.85	-	-	127.85
Risk class 2	0.25%	2,171.92	-	70.61	2,242.53
Risk class 3	1.25%	11.77	-	-	11.77
Risk class 4	10.33%	1.86	-	-	1.86
Risk class 5	100.00%	-	-	543.53	543.53
Total		2,313.40	-	614.14	2,927.54

"12-month ECL" included an amount of RON 1,763.95 million and "Lifetime ECL credit impaired" included an amount of RON 70.61 million, related to expenditure recoverable from the Romanian State.

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

Credit quality other financial assets at amortized cost – expected credit loss:

	Expected credit loss rate	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Risk class 1	0.08%	-	-	-	-
Risk class 2	0.25%	3.58	-	70.61	74.19
Risk class 3	1.25%	0.78	-	-	0.78
Risk class 4	10.33%	0.09	-	-	0.09
Risk class 5	100.00%	-	-	543.53	543.53
Total		4.45	-	614.14	618.59

“12-month ECL” included an amount of RON 3.12 million and “Lifetime ECL credit impaired” included an amount of RON 70.61 million, related to expenditure recoverable from the Romanian State.

The movements in impairment for other financial assets at amortized cost were as follows:

	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
January 1, 2018, per IAS 39	0.51	-	589.85	590.36
Adjustment on initial application of IFRS 9 (see Note 4.1)	4.38	-	-	4.38
January 1, 2018, per IFRS 9	4.89	-	589.85	594.74
Amounts written off	0.03	-	(12.68)	(12.65)
Net remeasurement of expected credit losses	(0.42)	-	36.97	36.55
Foreign exchange rate differences	(0.05)	-	-	(0.05)
December 31, 2018	4.45	-	614.14	618.59

“12-month ECL” included an amount of RON 3.12 million and “Lifetime ECL credit impaired” included an amount of RON 70.61 million, related to expenditure recoverable from the Romanian State

10. OTHER ASSETS

The carrying value of other assets was as follows:

	Liquidity term		
	December 31, 2018	less than 1 year	over 1 year
Receivable from taxes	292.16	225.67	66.49
Advance payments on fixed assets	50.28	50.28	-
Prepaid expenses and deferred charges	59.94	58.91	1.03
Rental and lease prepayments	31.15	14.56	16.59
Other assets	126.72	126.72	-
Total	560.25	476.14	84.11

	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

11. INVENTORIES

	December 31, 2018	December 31, 2017
Crude oil	425.08	331.49
Natural gas	90.97	86.63
Other materials	219.73	225.14
Work in progress	142.55	103.63
Finished products	1,273.21	1,335.91
Total	2,151.54	2,082.80

The cost of materials and goods consumed during 2018 (whether used in production or re-sold) is of RON 8,543.96 million (2017: RON 7,088.83 million).

As at December 31, 2018 and 2017 there are no inventories pledged as security for liabilities.

12. ASSETS HELD FOR SALE

	December 31, 2018	December 31, 2017
Land and buildings	1.04	5.43
Plant and equipment	127.91	-
Assets held for sale	128.95	5.43
Provisions	103.06	-
Liabilities associated with assets held for sale	103.06	-

As at December 31, 2018, most of the assets and liabilities held for sale referred to Upstream segment in relation to 9 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 September 2018. The transfer of these fields became effective as of March 1, 2019.

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, 2018 and December 31, 2017 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, 2018 and 2017. 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, 2018 and 2017. 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 422.92 million (2017: RON 387.07 million). The amount of RON 35.85 million was allocated to other reserves, representing fiscal facilities from reinvested profit in the year 2018 (2017: RON 72.09 million).

At the Annual General Meeting of Shareholders held on April 26, 2018, the shareholders of OMV Petrom S.A. approved the distribution of gross dividends in amount of RON 0.020 per share.

On March 14, 2019, the Supervisory Board endorsed the management's proposal to distribute gross dividends of RON 0.027 per share. The dividend proposal is subject to further approval by the Ordinary General Meeting of Shareholders, on April 19, 2019.

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 reserve

In order to protect the Group's result and cash flows against commodity price volatility, OMV Petrom Group uses derivative instruments for both hedging selected product sales and reducing exposure to price risks on inventory fluctuations. Crude oil and product swaps are used to hedge the refining margin (crack spread) which is the difference between crude oil prices and product prices.

13. STOCKHOLDERS' EQUITY (continued)

Certain financial instruments were accounted as cash flow hedges, with the effective part of the change in value of the derivative being accounted for in consolidated other comprehensive income. The cumulative unrealized gain recognized in consolidated other comprehensive income, net of tax, is in amount of RON 4.22 mn as at December 31, 2018 (2017: nil). When the hedged item (underlying transaction) affects profit and loss, the amounts previously accounted for in consolidated other comprehensive income are recycled to profit and loss.

As at December 31, 2017, the Group had no hedging relationships for which hedge accounting was applied.

14. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2018	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
Exchange differences	-	5.27	1.85	7.12
Liabilities associated with assets held for sale	-	(103.06)	-	(103.06)
Used	(10.80)	(155.82)	(167.25)	(333.87)
Allocations/(releases)	(2.66)	(1,209.57)	48.71	(1,163.52)
December 31, 2018	211.38	6,238.63	634.88	7,084.89
thereof short-term	-	245.68	444.61	690.29
thereof long-term	211.38	5,992.95	190.27	6,394.60

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 4.75% (2017: 4.10%) and an estimated average yearly salary increase of 2.61% (2017: 3.15%).

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 or recognized in the consolidated income statement, if it exceeds the carrying amount of the related asset. Net discount rates applied for calculating of decommissioning and restoration costs are between 0.66% and 2.11% (2017: between 0.00% and 2.25%).

The provision for decommissioning and restoration costs includes mainly obligations in respect of OMV Petrom S.A. amounting to RON 6,113.40 million (2017: RON 7,555.77 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:

	2018	2017
January 1	7,701.81	8,271.45
Exchange differences	5.27	(13.48)
Revisions in estimates	(1,533.30)	(654.65)
Unwinding effect	323.73	276.33
Used in current year	(155.82)	(175.42)
Transfer to liabilities associated with assets held for sale	(103.06)	(2.42)
December 31	6,238.63	7,701.81

The revisions in estimates impact the assets subject to decommissioning, the consolidated income statement or the related receivable from State. The unwinding effect is included in the consolidated income statement under the interest expenses line (Note 24) 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 consolidated income statement under interest expenses or interest income.

Impact from revision in estimates in 2018 was generated mainly by the increase of net discount rates and lower estimated average unit costs for onshore wells and facilities in Romania.

Impact from revision in estimates in 2017 was generated mainly by the increase of net discount rates.

14. PROVISIONS (continued)

Other provisions were as follows:

December 31, 2018	Total	less than 1 year	over 1 year
Environmental provision	223.03	111.63	111.40
Other personnel provisions	98.47	95.47	3.00
Provisions for litigations	83.53	7.87	75.66
Other	229.85	229.64	0.21
Total	634.88	444.61	190.27

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

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, 2018 and 2017 represent the best estimate of the Group's experts for environmental matters. Environmental provisions are mainly computed using a discount rate of 4.74% (2017: 4.10%).

OMV Petrom S.A. recorded certain environmental liabilities against receivable from the Romanian State in Downstream Oil, as these obligations existed prior to privatization (as further explained in Note 9b "Expenditure recoverable from Romanian State").

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.

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.

14. PROVISIONS (continued)

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 1,355,624 emission certificates for the year 2018 (2017: 1,699,556 emission certificates). During 2018 the Company received 1,685,836 emission certificates, out of which 990,637 emission certificates representing the 2017 entitlement according to article 10c) of the Directive and 695,199 emission certificates from 2018 entitlement according to article 10a) of the Directive.

During 2018 the Group had net other purchases of 377,791 emissions certificates (2017: other purchases of 144,063 emissions certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2018, the Group was not short of certificates.

15. INTEREST-BEARING DEBTS

As at December 31, 2018 and December 31, 2017 OMV Petrom Group had the following loans:

Borrower	Lender	December 31, 2018	December 31, 2017
Interest-bearing debts short-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	-	98.79
OMV Petrom S.A.	European Investment Bank (b)	88.84	88.76
OMV Petrom S.A.	OMV Petrom Global Solutions S.R.L. (c)	176.25	137.70
	Accrued interest	2.41	4.83
	Prepayments in relation with loan amounts drawn	(0.07)	(1.46)
Total interest bearing debts short-term		267.43	328.62

Borrower	Lender	December 31, 2018	December 31, 2017
Interest-bearing debts long-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	-	191.05
OMV Petrom S.A.	European Investment Bank (b)	282.05	370.56
	Prepayments in relation with loan amounts drawn	(0.18)	(2.93)
Total interest-bearing debts long-term		281.87	558.68
	thereof maturing after more than 1 year but not later than 5 years	281.87	543.15
	thereof maturing after 5 years	-	15.53
Total interest-bearing debts		549.30	887.30

- (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 being November 10, 2020. The loan was fully repaid on May 10, 2018 and the contract was closed (2017: RON 289.84 million, equivalent of EUR 62.20 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, 2018 was RON 370.89 million (equivalent of EUR 79.52 million) (2017: RON 459.32 million, equivalent of EUR 98.57 million).
- (c) A cash pooling agreement with maturity on April 19, 2019, 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 220.00 million (2017: RON 180.00 million), usable in RON or any other currency EUR, USD and GBP. Amount drawn by the Group as at December 31, 2018 was RON 176.25 million (2017: RON 137.70 million).

The OMV Petrom Group's companies have several credit facilities signed as at December 31, 2018 as follows:

- (d) 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, 2019 (for an amount of EUR 35.00 million) and subfacility B with maturity date prolonged to December 31, 2022 (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, 2018 and 2017.
- (e) 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 final maturity being May 20, 2022. The revolving credit facility was cancelled voluntarily on November 22, 2018 (2017: no drawing from this facility). The Banks Consortium included BRD - Groupe Société Générale S.A.; UniCredit Bank Austria AG; UniCredit Tiriack 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) 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.
- (f) 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 233.20 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, 2018 and 2017.
- (g) An uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe

15. INTEREST-BEARING DEBTS (continued)

Société Générale S.A. with maximum limit of EUR 90.00 million (equivalent of RON 419.75 million) that can be used in RON, with maturity date prolonged until April 30, 2019. The facility is designated to finance OMV Petrom's current activity and for issuance of bank guarantees, opening letters of credit and similar. The cash portion of the credit facility was not used as at December 31, 2018 and 2017.

(h) 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 932.78 million), for issuance of letters of bank guarantee and similar and as overdraft for working capital financing. As at December 31, 2018, the maturity for letters of bank guarantee and similar was January 13, 2020 and for overdraft the maturity was January 11, 2019. In January 2019, the maturity for letters of bank guarantees and similar was prolonged to January 13, 2022 and for overdraft the maturity was prolonged to January 11, 2021, with the possibility to further extend the maturity for additional successive periods, final maturity being January 13, 2024. The cash portion of the credit facility was not used as at December 31, 2018 and 2017.

(i) An unsecured facility contracted by OMV Srbija 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, 2020. The destination of the facility is for general corporate purposes financing. No drawings were made under the overdraft facility as at December 31, 2018 and 2017.

(j) 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 61.10 million) and maturity date prolonged to July 31, 2019 with 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, 2018 and 2017.

(k) An unsecured facility contracted by OMV Bulgaria OOD from Raiffeisenbank Bulgaria EAD, with a maximum limit of BGN 24.50 million (equivalent of RON 58.43 million) and maturity date January 30, 2024 and adjusted up to a maximum limit of BGN 19.75 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, 2018 and 2017.

OMV Petrom Group's companies have signed also facilities with several banks for issuing letters of bank guarantee and letters of credit, as follows:

(l) 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 139.92 million), to be utilized only for issuance of letters of bank guarantee and letters of credit, with maturity date prolonged to March 27, 2019. Maturity is subject to possibility of further automatic extensions for successive periods of 12 (twelve) months, but not longer than March 27, 2022.

15. INTEREST-BEARING DEBTS (continued)

(m) An unsecured credit facility received by OMV Petrom S.A. from Banca Transilvania S.A. (former Bancpost S.A.), up to EUR 25.00 million (equivalent of RON 116.60 million), to be utilized only for issuance of letters of bank guarantee, with maturity extended until March 31, 2020.

(n) 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 9.33 million) and maturity date until March 31, 2023. The destination of the facility is the issuance of letters of bank guarantee and letters of credit.

As at December 31, 2018, OMV Petrom Group is in compliance with all financial covenants stipulated by the loan agreements.

Please refer also to Note 36 for details regarding interest rate risks of interest-bearing debt.

16. OTHER FINANCIAL LIABILITIES

	December 31, 2018	less than 1 year	over 1 year
Finance lease liabilities	169.44	36.64	132.80
Derivatives financial liabilities	163.53	163.53	-
Financial liabilities in connection with joint operations	3.12	3.12	-
Other financial liabilities	207.88	185.05	22.83
Total	543.97	388.34	155.63
	December 31, 2017	less than 1 year	over 1 year
Finance lease liabilities	194.60	42.24	152.36
Derivatives financial liabilities	56.96	56.96	-
Financial liabilities in connection with joint operations	38.18	38.18	-
Other financial liabilities	242.02	233.87	8.15
Total	531.76	371.25	160.51

Finance lease liabilities

As of December 31, 2018, 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 Petrobrazi 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 126.62 million (2017: RON 138.45 million).

16. OTHER FINANCIAL LIABILITIES (continued)

A breakdown of present value of finance lease liabilities is presented below.

	December 31, 2018	December 31, 2017
Obligations under finance leases		
Amounts due within 1 year	42.94	49.68
Amounts due after more than 1 year but not later than 5 years	79.68	92.56
Amounts due after 5 years	102.49	114.75
Total lease obligations	225.11	256.99
Less future finance charges on finance leases	(55.67)	(62.39)
Present value of finance lease liabilities	169.44	194.60
Analyzed as follows:		
Maturing within 1 year	36.64	42.24
Maturing after more than 1 year but not later than 5 years	60.60	71.36
Maturing after 5 years	72.20	81.00

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, 2018				
Interest-bearing debts	271.23	290.30	-	561.53
Trade payables	3,049.66	-	-	3,049.66
Other financial liabilities	394.64	100.57	104.43	599.64
Total	3,715.53	390.87	104.43	4,210.83
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

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

17. OTHER LIABILITIES

	December 31, 2018	less than 1 year	over 1 year
Tax liabilities	551.11	551.11	-
Deferred income	25.04	10.20	14.84
Social security	46.08	46.08	-
Contract liabilities	138.86	138.86	-
Other liabilities	75.11	75.11	-
Total	836.20	821.36	14.84
	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

Contract liabilities

Contract liabilities include mainly contract liabilities recognized for vouchers sold to customers in the retail business and advance payments received from customers for future deliveries of goods or services.

The changes in contract liabilities during the year were as follows:

	Year 2018
January 1	135.87
Revenue recognized that was included in the contract liability balance at the beginning of the period	(132.12)
Increases due to cash received, excluding amounts recognized as revenue during the period	135.11
December 31	138.86

18. DEFERRED TAX

December 31, 2018	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	445.06	(20.58)	424.48	28.39
Inventories	25.69	(0.26)	25.43	-
Receivables and other assets	181.11	(40.10)	141.01	7.73
Provisions for pensions and severance payments	41.68	-	41.68	7.90
Other provisions	826.01	(15.31)	810.70	-
Liabilities	14.39	(1.90)	12.49	-
Tax loss carried forward	0.74	-	0.74	-
Total	1,534.68	(78.15)	1,456.53	44.02
Netting (same tax jurisdiction/country)			(23.53)	(23.53)
Total deferred tax, net			1,433.00	20.49

31 December 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	-	-	-	-
Inventories	27.18	(0.21)	26.97	0.04
Receivables and other assets	174.32	(41.73)	132.59	6.14
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	-

18. DEFERRED TAX (continued)

As at December 31, 2018, losses carry-forward for tax purposes amounted to RON 128.95 million (2017: RON 225.94 million). Eligibility of losses for carry-forward expires as follows:

	2018	2017
2019	-	20.01
2020	23.13	19.52
2021	23.83	-
2022	1.14	12.64
2023 / After 2022	5.12	173.77
After 2023	75.73	-
Total	128.95	225.94

No deferred tax asset was recognized for part of tax losses carry-forward included in the above table, in amount of RON 125.26 million (2017: RON 161.96 million).

19. SALES REVENUES

Revenues	2018
Revenues from contracts with customers	22,547.15
Revenues from other sources	(23.91)
Total sales revenues	22,523.24

Revenues from other sources include mainly the impact from commodity sales transactions that are within the scope of IFRS 9 Financial Instruments, as well as rental and lease revenues.

In the following table, revenue is disaggregated by products and reportable segments.

Revenues from contracts with customers

	Upstream	Downstream	thereof Downstream Oil	thereof Downstream Gas	Corporate & Other	Total
Crude Oil, NGL, condensates	453.03	75.97	75.97	-	-	529.00
Natural gas, LNG and power	5.29	4,981.06	10.20	4,970.86	-	4,986.35
Fuels and heating oil	-	13,277.20	13,277.20	-	-	13,277.20
Other goods and services	62.81	3,670.09	3,668.04	2.05	21.70	3,754.60
Total	521.13	22,004.32	17,031.41	4,972.91	21.70	22,547.15

20. OTHER OPERATING INCOME

	December 31, 2018	December 31, 2017
Exchange gains from operating activities	35.98	69.95
Gains on disposal of non-current assets	26.73	28.19
Write-up tangible and intangible assets	432.94	4.71
Other operating income	176.45	260.72
Total	672.10	363.57

“Write-up tangible and intangible assets” includes reversal of a previously recognized impairment for a cash generating unit in Upstream in OMV Petrom SA, in amount of RON 430.40 million.

“Other operating income” includes insurance revenues related to the Brazi gas-fired power plant booked in 2018, in amount of RON 81.80 million (2017: RON 160.81 million).

21. NET INCOME FROM EQUITY-ACCOUNTED INVESTMENTS

	December 31, 2018	December 31, 2017
Share of net result of associated companies	9.51	8.36
Total	9.51	8.36

22. OTHER OPERATING EXPENSES

	December 31, 2018	December 31, 2017
Exchange losses from operating activities	44.02	39.17
Losses on disposal of non-current assets	19.91	138.14
Net income from provisions for litigations	(41.89)	(166.28)
Other operating expenses	217.37	112.46
Total	239.41	123.49

Losses on disposals of non-current assets are lower than in 2017 when 19 marginal fields were transferred to Mazarine Energy Romania S.R.L., generating a loss of RON 126.68 million (see Note 32 d).

In 2017 the position "Net income from provision for litigations" included mainly a positive impact from the partial reversal of a provisions related to litigations with employees, following the outcome of court decisions.

Other operating expenses include an amount of RON 57.66 million (2017: RON 2.01 million) representing restructuring expenses.

23. COST INFORMATION

For the years ended December 31, 2018 and December 31, 2017 the consolidated income statement includes the following personnel expenses:

	December 31, 2018	December 31, 2017
Wages and salaries	1,636.57	1,711.88
Other personnel expenses	163.09	126.65
Total personnel expenses	1,799.66	1,838.53

Included in the above personnel expenses is the amount of RON 33.01 million, representing Group's contribution to state pension plan for the year ended December 31, 2018 (2017: RON 234.21 million). In Romania, following changes in legislation, starting with 2018 the level of Group's contribution decreased, while the level of employee contribution increased.

Depreciation, amortization and impairment losses net of write-ups of intangible assets and property, plant and equipment consisted of:

	December 31, 2018	December 31, 2017
Depreciation and amortization	2,879.37	2,921.11
Net impairment/ (write-ups) intangible assets and property, plant and equipment	(7.05)	662.72
Total depreciation, amortization and net impairment	2,872.32	3,583.83

Net write-ups booked during the year ended December 31, 2018 for intangible assets and property, plant and equipment were related to Upstream segment write-ups of RON 21.88 million (impact from reversal of a previously recognized impairment of RON 430.40 million, partially compensated by impairments, mainly for replaced assets, unsuccessful workovers and exploration assets), impairment related to Downstream Oil segment in amount of RON 14.20 million, Downstream Gas segment in amount of RON 0.62 million and Corporate segment in the amount of RON 0.01 million.

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.

23. COST INFORMATION (continued)

In the consolidated income statement as at December 31, 2018 the write-ups are included in other operating income in amount RON 432.94 million (2017: RON 4.71 million) and impairment losses are included under depreciation, amortization and impairment charges in amount of RON 300.76 million (2017: RON 424.26 million) and under exploration expenses in amount of RON 125.13 million (2017: RON 243.17 million). Impairment losses for 2017 included 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 233.54 million (2017: RON 210.30 million).

24. INTEREST INCOME AND INTEREST EXPENSES

	December 31, 2018	December 31, 2017
Interest income		
Interest income from receivables and other	13.70	30.15
Interest income from short term bank deposits	100.47	19.37
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivable	48.07	43.18
Total interest income	162.24	92.70
Interest expenses		
Interest expenses	(59.03)	(79.62)
Unwinding expenses for retirement benefits provision	(9.21)	(7.26)
Unwinding expenses for decommissioning provision, net of the unwinding income for related State receivable	(257.48)	(216.60)
Unwinding and discounting for other items and negative effect of changes in discount rate and timing for State receivables	(109.88)	(95.28)
Total interest expenses	(435.60)	(398.76)
Net interest result	(273.36)	(306.06)

25. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2018	December 31, 2017
Financial income		
Exchange gains from financing activities	44.44	24.97
Gains from investments and financial assets	0.23	1.90
Total financial income	44.67	26.87
Financial expenses		
Exchange losses from financing activities	(37.58)	(56.36)
Losses from financial assets and securities	(1.75)	(0.43)
Other financial expenses	(31.40)	(30.25)
Total financial expenses	(70.73)	(87.04)
Other financial income and expenses	(26.06)	(60.17)

26. TAXES ON INCOME

	December 31, 2018	December 31, 2017
Tax on income - current taxes	(705.37)	(406.72)
Deferred tax revenue/(expense)	(130.41)	(8.09)
Total taxes on income – revenue / (expense)	(835.78)	(414.81)

The reconciliation of net deferred tax is as follows:

	2018	2017
Deferred tax, net January 1	1,545.35	1,555.79
Adjustments on initial application of IFRS 9	0.07	-
Adjusted deferred taxes January 1	1,545.42	1,555.79
Deferred tax, net December 31	1,412.51	1,545.35
Changes in deferred tax	(132.91)	(10.44)
thereof deferred tax (expense)/ revenues in Other Comprehensive Income	(2.50)	(2.35)
thereof deferred tax revenues in the Income Statement	(130.41)	(8.09)
Reconciliation		
Profit before tax	4,913.57	2,904.12
Income tax rate applicable for Parent company	16.00%	16.00%
Profit tax expense based on income tax rate of the Parent	(786.17)	(464.66)
Effect of differing foreign tax rates	0.34	6.81
Profit tax expense based on applicable rates	(785.83)	(457.85)
Tax effect of items that are (non-deductible) / non-taxable	(49.95)	43.04
Profit tax expense in the Income Statement	(835.78)	(414.81)

27. EARNINGS PER SHARE

Calculation of earnings/ (losses) per share is based on the following data:

	December 31, 2018	December 31, 2017
Net profit/ (loss) attributable to stockholders of the parent	4,078.10	2,490.81
Weighted average number of shares	56,643,903,559	56,643,903,559
Earnings/ (loss) per share in RON	0.0720	0.0440

The basic and diluted earnings/ (loss) per share are the same as there are no instruments that have a dilutive effect on earnings.

28. 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.

28. 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 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, 2018	Upstream	Downstream *	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	9,214.71	234.86	195.67	132.44	(93.25)	185.00	9,634.57	(9,634.57)	-
Sales with third parties	527.74	21,958.85	4,883.78	17,075.07	-	36.65	22,523.24	-	22,523.24
Total sales	9,742.45	22,193.71	5,079.45	17,207.51	(93.25)	221.65	32,157.81	(9,634.57)	22,523.24
Operating result	3,530.52	1,671.74	286.34	1,385.40	-	(105.63)	5,096.63	116.36	5,212.99
Total assets **	22,866.45	6,521.73	1,081.57	5,440.16	-	419.86	29,808.04	-	29,808.04
Additions in PPE/IA ***	3,234.73	1,098.54	(36.31)	1,134.85	-	0.94	4,334.21	-	4,334.21
Depreciation and amortization	2,097.84	759.24	90.66	668.58	-	22.29	2,879.37	-	2,879.37
Impairment losses/ write-ups (net)	(21.88)	14.82	0.62	14.20	-	0.01	(7.05)	-	(7.05)

*) 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 103.43 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9).

28. SEGMENT INFORMATION (continued)

Information about geographical areas:

December 31, 2018	Romania	Rest of CEE	Rest of world	Consolidated total
Sales with third parties *	19,112.21	3,381.88	29.15	22,523.24
Total assets **	28,667.08	704.70	436.26	29,808.04
Additions in PPE/IA	4,251.59	56.52	26.10	4,334.21

*) 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 1,632.87 million in 2018.

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.

28. 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.

29. AVERAGE NUMBER OF EMPLOYEES

	December 31, 2018	December 31, 2017
Total OMV Petrom Group	13,409	14,210
thereof:		
OMV Petrom S.A.	12,498	13,322
Subsidiaries	911	888

The number of employees was calculated as the average of the month's end number of employees during the year.

30. 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, 2018 and December 31, 2017. Dividends receivable are not included in the below balances and revenues.

30. RELATED PARTIES (continued)

During 2018, OMV Petrom Group had the following transactions with related parties (including balances as of December 31, 2018):

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Acquisition of petroleum products	1,008.74	141.37
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	410.80	97.64
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	138.08	33.39
OMV Gas, Marketing & Trading GmbH	Services and other	93.35	9.00
OMV Exploration & Production GmbH	Delegation of personnel and other	80.00	25.39
OMV Aktiengesellschaft	Delegation of personnel and other	47.35	29.85
OMV Gas & Power GmbH	Delegation of personnel and other	4.86	3.65
OMV Austria Exploration & Production GmbH	Various services	2.74	-
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.37	-
OMV Deutschland GmbH	Various services	0.14	0.14
Total OMV Petrom S.A.		1,786.43	340.43

	Nature of transaction	Purchases	Balances payable
OMV Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Acquisition of petroleum products & services	107.69	17.18
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	79.09	18.41
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	13.35	0.06
OMV International Services GmbH	Financial services	5.67	69.10
OMV Gas, Marketing & Trading GmbH	Services and other	5.09	0.43
OMV Exploration & Production GmbH	Delegation of personnel and other	3.41	1.09
OMV SLOVENIJA trgovina z nafto in naftnimi derivati, d.o.o.	Acquisition of petroleum products	1.88	-
OMV Gas & Power GmbH	Various services	1.38	1.38
OMV Aktiengesellschaft	Delegation of personnel and other	0.12	0.11
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.01	-
Borealis AG	Various services	-	0.01
Total subsidiaries		217.69	107.77
Total OMV Petrom Group		2,004.12	448.20

30. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - parent company			
OMV Deutschland GmbH	Sales of propylene	366.73	63.95
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	131.94	1.85
OMV Gas, Marketing & Trading GmbH	Services and other	93.65	6.37
OMV Exploration & Production GmbH	Delegation of personnel and other	26.28	4.53
OMV Petrom Global Solutions SRL	Various services	26.23	3.87
OMV Aktiengesellschaft	Delegation of personnel and other	10.45	2.54
OMV Austria Exploration & Production GmbH	Various services	7.09	7.09
Trans Gas LPG Services S.R.L.	Various services	0.06	0.01
Energy Production Enhancement S.R.L.	Other services	0.03	-
Borealis AG	Various services	0.03	0.01
OMV Supply & Trading Limited	Sales of petroleum products	-	1.03
Total OMV Petrom S.A.		662.49	91.25

	Nature of transaction	Revenues	Balances receivable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Various services	2.00	0.18
OMV Česká republika, s.r.o.	Various services	0.80	0.10
OMV Refining & Marketing GmbH	Delegation of personnel and other	0.62	0.09
Borealis AG	Various services	0.11	-
OMV Offshore Bulgaria GmbH	Various services	0.06	0.01
Trans Gas LPG Services SRL	Various services	0.02	-
OMV - International Services GmbH	Other services	-	12.53
OMV Aktiengesellschaft	Delegation of personnel and other	(0.07)	-
Total subsidiaries		3.54	12.91
Total OMV Petrom Group		666.03	104.16

30. RELATED PARTIES (continued)

During 2018, OMV Petrom Group had the following interest income and interest expenses with related parties (including balances as of December 31, 2018 for interest payable and interest receivable):

	Interest expense	Balances interest payable
OMV Petrom S.A. - parent company		
OMV Petrom Global Solutions S.R.L.	4.81	0.51
Total OMV Petrom S.A.	4.81	0.51
Total OMV Petrom Group	4.81	0.51

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	0.00
OMV Solutions GmbH	Various services	0.07	0.00
Total OMV Petrom S.A.		1,673.16	201.65

*) During 2017 OMV Trading GmbH merged with OMV Gas, Marketing & Trading GmbH.

30. RELATED PARTIES (continued)

	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

	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.

30. RELATED PARTIES (continued)

	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

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

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 agreement as at December 31, 2018 and 2017. Relationship with OMV Petrom Global Solutions S.R.L. also comprises the cash pooling during 2018 and 2017, included in Note 15c).

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

30. RELATED PARTIES (continued)

majority of OMV Aktiengesellschaft shares are held by Österreichische Beteiligungs AG (ÖBAG; previously Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB), Vienna, representing the Austrian government – 31.5%) and Mubadala Petroleum and Petrochemicals Holding Company (MPPH, 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 2018, the General Meeting of Shareholders approved a net remuneration for each member of the Supervisory Board amounting to EUR 20,000 per year (2017: EUR 20,000 per year), an additional net remuneration per meeting of EUR 4,000 for each member for the Audit Committee (2017: 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 (2017: EUR 2,000 per meeting).

At December 31, 2018 and December 31, 2017, there are no loans or advances granted by the Group to the members of the Supervisory Board. As at December 31, 2018 and December 31 2017, the Group does not have any obligations regarding pension payments to former members of the Supervisory Board.

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 2018 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 111.14 million (2017: RON 61.42 million).

31. DIRECT AND INDIRECT INVESTMENTS OF OMV PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2018

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 supply	Romania
Petromed Solutions S.R.L.	99.99%	FC	Medical services	Romania
OMV Petrom Aviation S.A. *	100.00%	FC	Airport services	Romania
OMV Srbija DOO	99.96%	FC	Fuel distribution	Serbia
OMV Bulgaria OOD	99.90%	FC	Fuel distribution	Bulgaria
Kom Munai LLP	100.00%	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).

During 2018, OMV Petrom acquired the remaining non-controlling interest of 5% in Kom Munai LLP, reaching shareholding of 100%.

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.

32. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2018 OMV Petrom Group has drawn borrowings amounting to RON 38.56 million (2017: RON 42.49 million) and has repaid borrowings amounting to RON 377.64 million (2017: RON 687.55 million) and finance lease obligations amounting to RON 32.37 million (2017: RON 37.23 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, 2018	887.30	194.60	1,081.90
Repayments of borrowings	(377.64)	(32.37)	(410.01)
Increase in borrowings	38.56	-	38.56
Total cash flows relating to financing activities	(339.08)	(32.37)	(371.45)
Exchange differences	(0.61)	(0.05)	(0.66)
Other changes	1.69	7.27	8.96
Total non-cash changes	1.08	7.22	8.30
31 December, 2018	549.30	169.45	718.75

b) Investments and other financial assets

During 2018, OMV Petrom Group acquired the remaining non-controlling interest of 5% in Kom Munai LLP, reaching shareholding of 100% for which an amount of RON 1.01 mn was paid.

During 2017, OMV Petrom Group did not acquire, nor contributed to the share capital of any entity.

32. CASH FLOW STATEMENT INFORMATION (continued)

c) Disposal of Group companies

During 2018, OMV Petrom Group did not dispose of any subsidiary.

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

32. CASH FLOW STATEMENT INFORMATION (continued)

In relation to disposal of subsidiary Wind Power Park S.R.L., the deferred consideration for sale of shares was received in January 2018 (RON 13.21 million).

Also, during 2017 the not-consolidated entities Petrom Nadlac 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.

d) Transfer of business

In 2018, OMV Petrom Group did not transfer any 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.

32. CASH FLOW STATEMENT INFORMATION (continued)

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, 2018 is of RON 624.10 million (2017: RON 241.80 million), out of which the amount of RON 72.83 million is related to operating activities (2017: RON 58.98 million) and the amount of RON 551.27 million represents cash outflows for exploration investing activities (2017: RON 182.82 million).

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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, 2018

Financial instruments on asset side

	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	5.78	-	5.78
Other derivatives	-	45.01	-	45.01
Total	-	50.79	-	50.79

Financial instruments on liability side

	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	(0.75)	-	(0.75)
Liabilities on other derivatives	-	(162.78)	-	(162.78)
Other financial liabilities	-	-	(11.41)	(11.41)
Total	-	(163.53)	(11.41)	(174.94)

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

33. 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)

The financial liabilities whose fair values differ from their carrying amounts as at December 31, 2018 and December 31, 2017 (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.

The carrying amount of all other financial assets and financial liabilities that were measured at amortized cost approximates their fair value.

December 31, 2018			
Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	554.27	549.30	4.97
Finance lease liabilities	177.83	169.45	8.38
Total	732.10	718.75	13.35

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

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amounts are reported in the statement of financial position when OMV Petrom 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, 2018 and 2017 in accordance with IAS 32 and shows in the net column the amounts presented in the statement of financial position.

Offsetting of financial assets 2018

	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
Trade receivables	145.98	(145.62)	0.36 *	-	0.36
Derivative financial instruments	22.15	(15.32)	6.83 **	-	6.83
Other financial assets	23.50	(20.63)	2.87 **	-	2.87
Total	191.63	(181.57)	10.06	-	10.06

*) included in Trade receivables of RON 1,674.23 million in the statement of financial position;

**) included in Other financial assets of RON 195.19 million in the statement of financial position.

Offsetting of financial liabilities 2018

	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
Trade payables	145.62	(145.62)	- *	-	-
Derivative financial instruments	17.54	(15.32)	2.22 **	-	2.22
Other financial liabilities	23.84	(20.63)	3.21 **	-	3.21
Total	187.00	(181.57)	5.43	-	5.43

*) included in Trade payables of RON 3,049.66 million in the statement of financial position;

**) included in Other financial liabilities of RON 388.34 million in the statement of financial position.

33. 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.

34. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2018 the total commitments engaged by OMV Petrom Group for investments (except those in relation to joint arrangements) are in amount of RON 955.09 million (2017: RON 860.90 million), out of which RON 861.49 million related to property, plant and equipment (2017: RON 805.68 million) and RON 93.60 million for intangible assets (2017: RON 55.22 million).

The Group has additional commitments in relation to joint arrangements - for details please refer to Note 35.

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.

OMV Petrom Group has contingent liabilities representing performance guarantees in amount of RON 36.81 million as at December 31, 2018 (2017: RON 64.38 million).

35. 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. During 2018, Repsol notified OMV Petrom of its intention to exit the licenses and the National Agency for Mineral Resources approved the takeover by OMV Petrom of Repsol's interest in the four onshore exploration licenses. Following National Agency for Mineral Resources approval, OMV Petrom became sole titleholder and operator of the four exploration blocks.

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, 2018 is amounting to RON 45.84 million (2017: RON 117.30 million), mainly in relation to offshore drilling requirements.

36. 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 4,890.68 million at December 31, 2018 compared to RON 2,897.15 million at December 31, 2017.

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.

36. 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, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Thousand USD	64,897	443,922	25,439	26,411
Thousand EUR	87,734	93,620	208,002	296,489

36. 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 functional 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)	
	2018	2017	2018	2017
Profit/ (Loss)	1,613	9,051	(12,027)	(20,287)
Other comprehensive income	2,333	32,700	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2018	2017	2018	2017
Profit/ (Loss)	(1,613)	(9,051)	12,027	20,287
Other comprehensive income	(2,333)	(32,700)	-	-

(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 effect in equity is the effect in profit or loss before tax and other comprehensive income, net of income tax (16%).

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.

36. RISK MANAGEMENT (continued)

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. Currently, OMV Petrom Group has limited exposure to this risk.

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 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

	Balance as at		Effect of 1% change in interest rate, before tax	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Short term borrowings	265.09	325.25	2.65	3.25
Long term borrowings	282.05	561.61	2.82	5.62

In 2018, there was no need for hedging the interest rate risk, hence no financial instruments were used for such purpose.

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).

36. RISK MANAGEMENT (continued)

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.

37. EXPENSES GROUP AUDITOR

In 2018 the statutory auditor Ernst & Young Assurance Services SRL had a contractual statutory audit fee of EUR 598,170 (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 97,850, being other assurance services in relation to certain mandatory reports issued by the Company that are not prohibited by Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Other EY network firms performed audit services for the OMV Petrom subsidiaries of EUR 152,900 and non-audit 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 20,370.

38. SUBSEQUENT EVENTS

There are no significant events subsequent to the reporting date.

These financial statements, presented from page 86 to page 186, 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 14, 2019.



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Chief Executive Officer



Stefan Waldner,
Chief Financial Officer




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Upstream



Franck Neel,
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Consolidated report on payments to governments



FUELS



GAS



ELECTRICITY

Consolidated report on payments to governments for the year 2018

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 2018, 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, 2018.

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	830,634	758,223	91,584	1,680,441
Kazakhstan	115,666	-	3,637	119,303
Total	946,300	758,223	95,221	1,799,744

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	-	576,209	87,966	664,175
Onshore joint ventures	-	5,737	24	5,761
Offshore Black Sea	-	176,277	1,005	177,282
Payments not attributable to projects	830,634	-	2,589	833,223
Total	830,634	758,223	91,584	1,680,441
Payments per Government				
State Budget	830,634	758,223	-	1,588,857
National Company of Forests	-	-	62,478	62,478
Local City Councils	-	-	22,506	22,506
National Agency for Mineral Resources	-	-	2,629	2,629
National Regulatory Authority for Energy	-	-	2,649	2,649
Offshore Operations Regulatory Authority	-	-	829	829
Conpet SA	-	-	493	493
Total	830,634	758,223	91,584	1,680,441
Kazakhstan				
Payments per project				
Tasbulat area	46,206	-	2,482	48,688
Komsomolskoe	69,460	-	1,155	70,615
Total	115,666	-	3,637	119,303
Payments per Government				
State Revenue Committee ¹	115,666	-	998	116,664
Training centers, universities ²	-	-	2,639	2,639
Total	115,666	-	3,637	119,303
Total	946,300	758,223	95,221	1,799,744

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.



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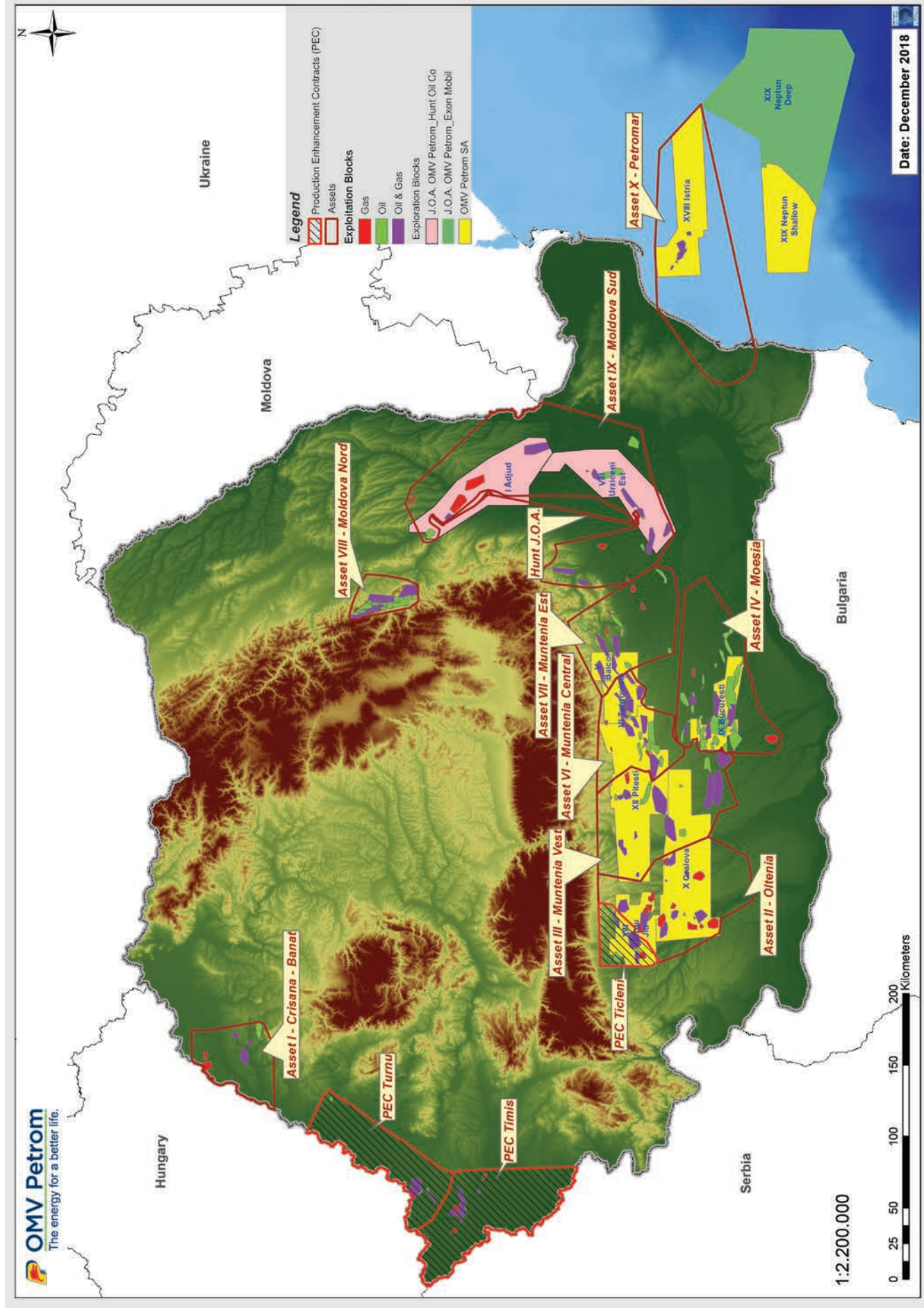
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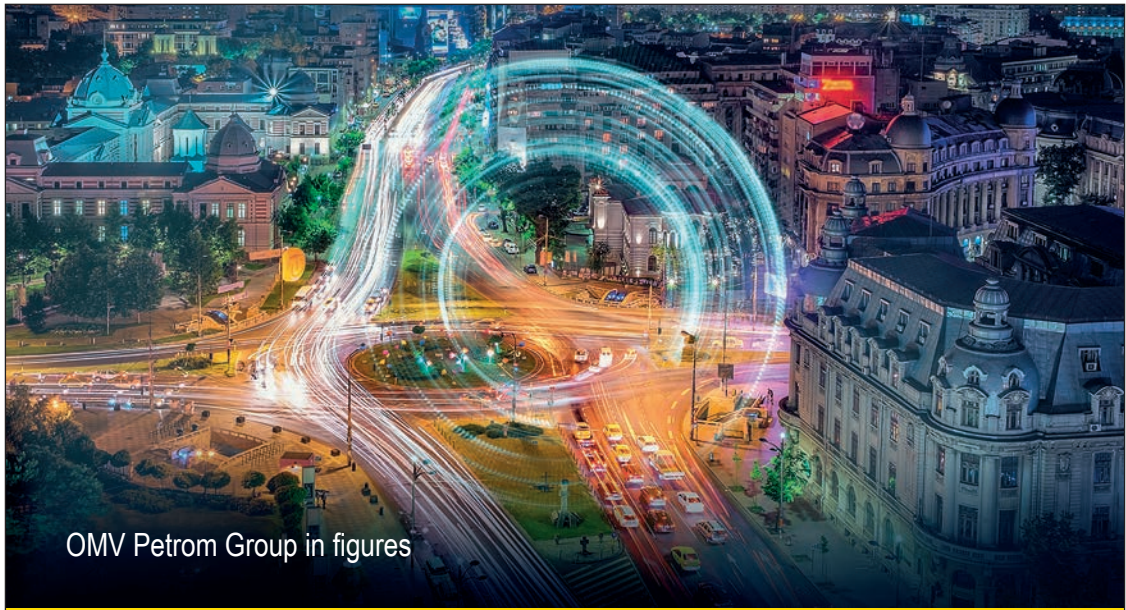
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OMV Petrom Group in figures

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