

Annual Report 2016



OMV Petrom

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OMV Petrom Group in figures 2016

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.

OMV Petrom Group – at a glance

	2014	2015	2016
Sales (RON mn) ¹	21,541	18,145	16,247
EBITD (RON mn)	8,145	6,231	4,933
EBIT (RON mn)	3,338	(530)	1,469
Net income / (loss) attributable to stockholders (RON mn) ²	2,103	(676)	1,043
Clean CCS EBITD (RON mn) ³	8,596	6,493	5,093
Clean CCS EBIT (RON mn) ³	5,202	2,522	1,694
Clean CCS net income / (loss) attributable to stockholders (RON mn) ^{2,3}	3,764	1,801	1,162
Balance sheet total (RON mn)	43,125	41,118	41,414
Total equity (RON mn)	27,005	25,688	26,706
Net debt / (cash) (RON mn)	890	1,286	(237)
Cash flow from operating activities (RON mn)	6,830	5,283	4,454
Capital expenditure (RON mn)	6,239	3,895	2,575
Free cash flow (RON mn)	1,172	329	1,559
ROACE (%)	76	(2.2)	4.1
Clean CCS ROACE (%) ³	13.6	6.5	4.5
Equity ratio (%)	63	62	64
Gearing (%)	3	5	n.m.
EPS (RON/share)	0.0371	(0.0119)	0.0184
Clean CCS EPS (RON/share) ³	0.0665	0.0318	0.0205
Dividend (RON/share)	0.0112	0	0.015 ⁴
Payout ratio (%)	30	0	81 ⁴
Total proved reserves as of December 31 (mn boe)	690	647	606
Total hydrocarbon production (mn boe)	65.82	65.19	63.74
thereof crude oil and NGL production (mn bbl)	30.94	30.43	29.15
thereof natural gas production (bcm)	5.34	5.32	5.29
Gas sales volumes (TWh)	47.7	51.4	50.4
thereof to third parties	44.3	45.2	43.9
Net electrical output (TWh)	1.3	2.7	2.9
Petrobrazi refinery utilization rate (%) ⁵	89	88	89
Total refined product sales (mn t)	4.81	5.03	4.93
thereof retail sales (mn t) ⁶	2.37	2.53	2.56
Number of filling stations	780	788	783
Employees as of December 31	16,948	16,038	14,769
LTIR per one million hours worked for own employees	0.47	0.23	0.25 ⁷

¹ Sales excluding petroleum excise tax

² After deducting net result attributable to non-controlling interests

³ Clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS effects) resulting from Downstream Oil.

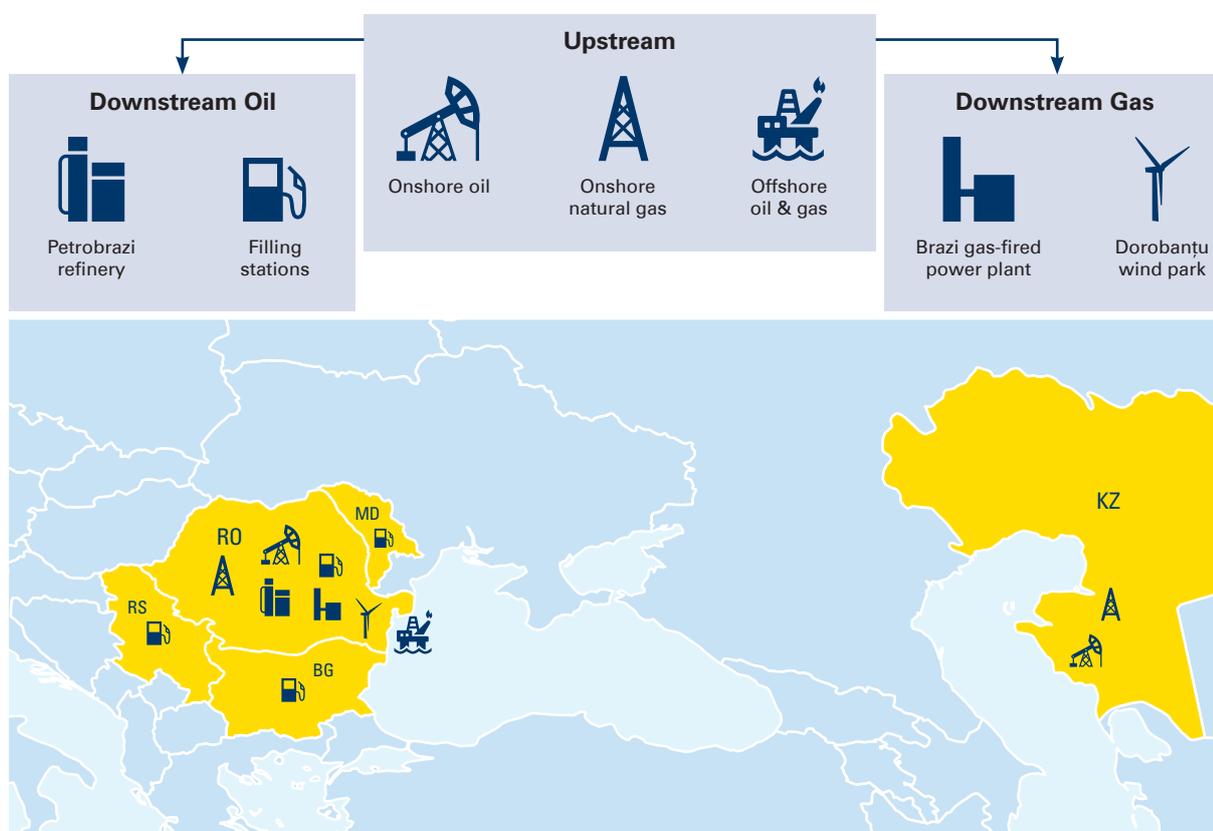
⁴ Dividend subject to GMS approval on April 25, 2017

⁵ After the finalization of the Petrobrazi refinery modernization, the opportunity was taken to demonstrate the maximum throughput based on a timeframe of the best 30 consecutive days. As a result, the annual refining capacity has been updated from 4.2 mn t to 4.5 mn t as of 2015; previously reported figures for 2014 were not adjusted accordingly.

⁶ Retail sales volumes include sales via Group's filling stations in Romania, Bulgaria, Serbia and Moldova. Figures also reflected wholesales in Moldova until end-2015, when reporting changed; historical figures were not adjusted accordingly.

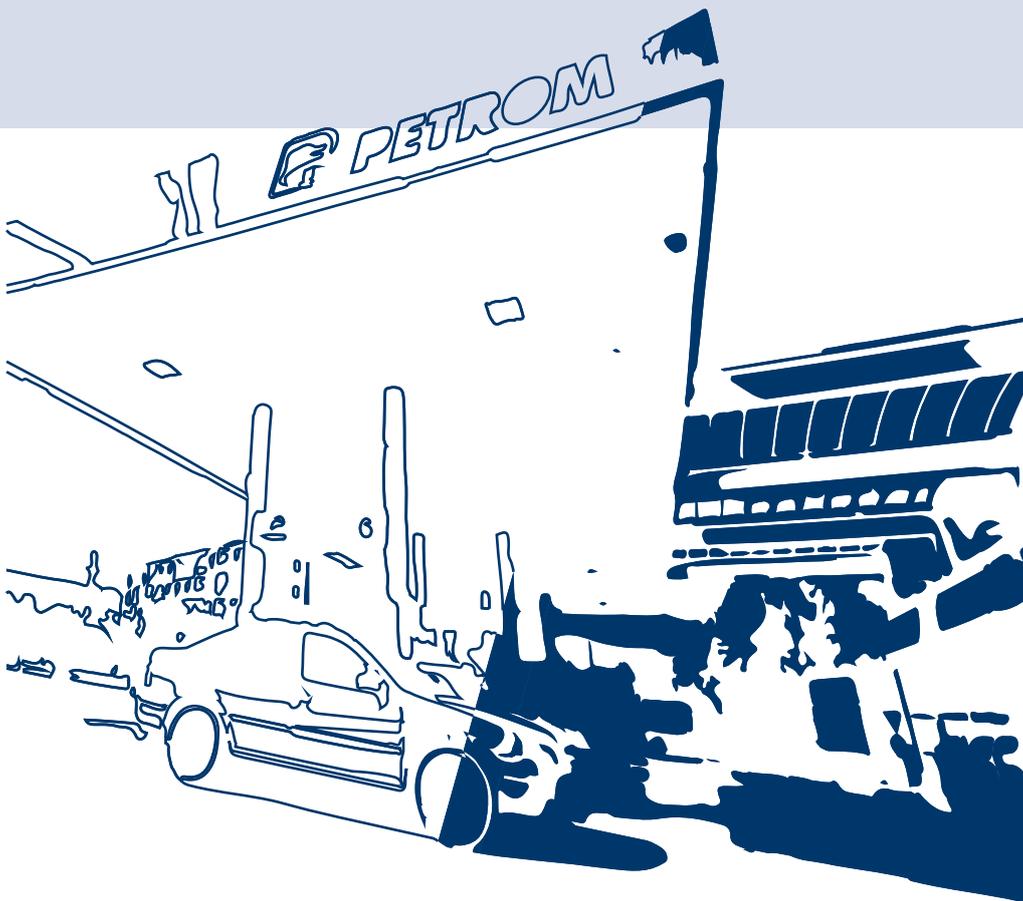
⁷ Indicator under EY audit – might suffer modifications.

OMV Petrom is the **largest integrated oil and gas group in Southeastern Europe** and the **leading industrial company in Romania**. The company is organized in three operationally integrated business segments – Upstream, Downstream Oil and Downstream Gas. In **Upstream**, OMV Petrom is present in Romania and Kazakhstan. The **Downstream Oil** portfolio comprises the 4.5 mn t/y capacity Petrobrazi refinery, as well as a 783 filling station network operated via two brands, Petrom and OMV, located in Romania, Moldova, Bulgaria and Serbia. The **Downstream Gas** segment is the company’s sole gas marketing channel. The Downstream Gas portfolio comprises the 860 MW gas fired power plant Brazi and the 45 MW wind park Dorobanțu.



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Highlights

Forty years of offshore excellence

In 2016, OMV Petrom celebrated **40 years of offshore activities** in the Romanian part of the Black Sea and 30 years since first production was achieved. Currently, the Black Sea is the second most important production area in Romania, after the Oltenia region.

In 1976, the jack-up rig Gloria launched drilling operations in the Black Sea, laying the foundations of Petromar (currently Asset X Petromar), a production area that delivered in 2016 around **18% of the entire OMV Petrom domestic production** (~8% of the oil production and ~26% of natural gas production). The annual oil and gas production coming from the Black Sea is sufficient to heat 1 mn households for a year or to fill 4.4 mn cars.

The current infrastructure comprises: seven offshore platforms, hundreds of kilometers of pipelines, 78 active wells, three helicopters and two support vessels operating 365 days/year.

It all started with the exploration of the Western section of the Romanian continental shelf, based on 2D seismic data acquisition from 1969 that identified 12 geological structures. Following the analyses, the first wildcat well was drilled, Well 1 East Ovidiu. Although it did not lead to an economically viable discovery, it still remains the deepest Romanian offshore well (5,006 meters). After another dry-hole was drilled in the Midia structure, the Gloria rig was moved in 1979 to a location closer to the shore, where it drilled a wildcat well that led to the first offshore commercial discovery, the Lebăda East field. Together with four other fields discovered afterwards – Lebăda West (1984), Sinoe (1988), Pescăruș (1999) and Delta (2007) – Lebăda East is today part of the XVIII Istria block. In this block, OMV Petrom performs exploration, development and exploitation activities.

In 2003, the Pescăruș field came on stream and in 2008 Petromar had its **first unmanned production platform**, designed to be remotely operated from a control room on the central platform. Pescăruș can be considered an example of best practice in terms of unmanned production platforms.

3D seismic data was acquired for the Lebăda East structure in 1983. A further batch of 3D seismic data acquisition was initiated in 2005. Covering an area of 645 square km, the additional data provided a new assessment of the near-field opportunities and led to the discovery in 2007 of the Delta field. In addition to 3D seismic data acquisition, other new technologies were adopted, supporting real-time tracking of geological and geophysical data. The newly implemented technologies were crucial for drilling of the well Delta 6, the longest of the field, with a horizontal movement of over 3,000 meters, down to a depth of 4,800 meters. Delta field was put into production in only two years, the shortest time frame in Petromar's history.

The implementation, for the first time in Europe, of the three-phase tracers (compatible with water, oil and gas) in the stimulation of the wells from the Lebăda West field, can be considered a great achievement in Petromar's recent history. Tracers are environmentally friendly chemicals that can be pumped in the well together with the stimulation liquid in order to track its efficiency and to allocate water, oil and gas production to individual parts of the well.

The implementation of the **Lebăda Est Non-Associated Gas Compression (LENAG)** project in Q2/16 represents another step in the development of Asset X Petromar. With this project we aimed to optimize exploitation by upgrading the existing gas compression system and ancillary facilities and delivering non-associated gas compression to minimize reservoir pressure decline. We completed the first stage of execution in November 2015 and finalized the remaining upgrades, which included the upgrade of the non-associated gas compression system, in Q2/16.

By carrying out this essential step, Asset X has reached an important milestone enabling it to maximize production, reduce production decline and achieve more than 1,050 days without LTI (Lost Time Injuries), the longest in Petromar's history.

Petromar supplies ~1/5 of our domestic production

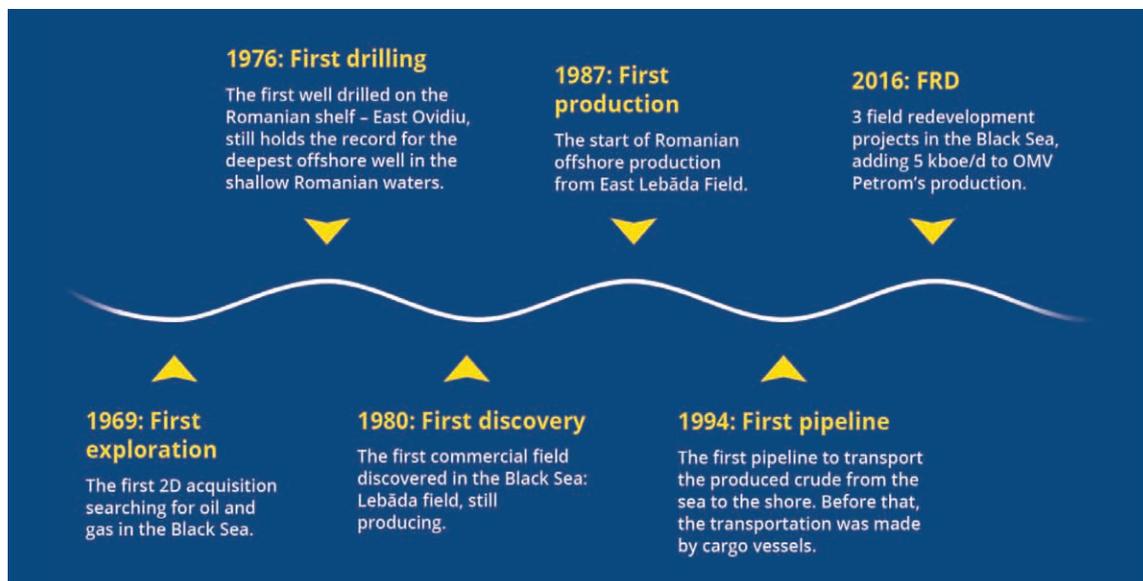
Pescăruș – first unmanned production platform

Following four decades of successful offshore activities, our business continuity faces several threats, that are currently addressed under the **Rejuvenation Program** umbrella. Significant efforts have been made in order to thoroughly assess infrastructure current status and the impact of the upcoming Offshore Safety Directive, which will be implemented in July 2018.

The future of Petromar is shaped by the new development and exploration projects that are currently in their early stages. Taking advantage of several opportunities identified during the Field Redevelopment Projects (FRD) Istria Ph.1, Istria Ph.2 and implemented between 2013 and 2015, the new FRD Petromar initiative is still focused on the five commercial fields from the Istria block.

Rejuvenation Program ongoing

Shallow offshore



Neptun Deep

Our long-term growth depends on our ability to discover and commercially exploit new reserves. To this end, Neptun Deep is currently our most promising offshore opportunity.

Neptun Deep represents the deep-water sector of the XIX Neptun block in the Romanian Black Sea, where OMV Petrom is conducting activities through a joint venture with ExxonMobil – a world class operator that contributes significantly with deep-water exploration and development expertise. Over the years between 2008 and 2016, we have performed exploration and appraisal activities in the Neptun Deep block, which included two 3D acquisition campaigns and two exploration drilling campaigns, with eight exploration and appraisal wells drilled. In 2012, Domino-1, the first deep-

water exploration well in Romania, encountered natural gas. In January 2016, we successfully completed the most ambitious exploration drilling campaign in the Romanian deep water sector of the Black Sea, which included in total seven wells drilled, the majority of them having encountered gas, and a successful well test of the Domino structure. Exemplary safety and environmental performance was also achieved during the campaigns. The results of the drilling campaigns are sufficiently encouraging to progress more detailed work to determine if commercial development is viable. The investments made during 2008-2016 were in excess of USD 1.5 bn (thereof 50% OMV Petrom). Potential development of the discovered resources (if commercially viable) would involve additional investment of several billions of USD.

Neptun Deep – our most promising offshore opportunity

Enablers for achieving "best in class" status

Digital Oil Field

OMV Petrom operates in a mature environment, where field performance management, optimum well and facilities intervention and preventive maintenance make the difference and enable OMV Petrom to achieve "best in class" status. In today's world of a low oil price environment, it is essential to step from the original design of the Digital Oil Field to its full implementation in order to be competitive for the future.

The Digital Oil Field is bringing data to life, simplifying operations, helping to make the right decisions at the right time thereby ensuring safe and efficient low cost operations of oil and gas fields.

The Digital Oil Field philosophy is connecting the key elements: people, processes and technologies that are required to efficiently operate oil and gas fields. Increasing people's skills, shaping processes and organization for full value generation from implemented automation systems and technologies form the **foundation** of sustainable high level performance.

Implementing the Digital Oil Field processes enables OMV Petrom to remotely monitor, troubleshoot and optimize operations and maintenance data and activities. The aim is to create value through increased integrated and reliable performance data availability to skilled professionals in order to facilitate the right decisions, referred to as "Data Enabled Operations Excellence". OMV Petrom started its digital operations journey many years ago and as at the end of 2016 operated more than 4,000 automated wells and over 80 facilities out of more than 700.

The integrated Digital Oil Field philosophy was first applied as a pilot in one of OMV Petrom's biggest oilfields Independența, a field producing oil from more than 400 active wells. As of today, all wells and the majority of gathering facilities are automated and connected to a SCADA system. Real time data from wells and facilities are being transmitted through this secured SCADA system to the OMV Petrom Data Center and are monitored in the local Operational HUB.

More than 4,000 wells automated by end-2016

This enhanced operational set up delivers significant **benefits**:

- ▶ Safe operations through real time online monitoring of well and facility condition parameters
- ▶ Reduced on site exposure and windshield time for field staff
- ▶ Minimized production losses/deferments
- ▶ Improved production potential utilization and efficiency
- ▶ Avoidance of damage of subsurface/surface equipment through monitoring and optimization
- ▶ Increased run life of equipment, improved energy consumption per boe of oil produced, optimized oilfield chemical usage and thereby significant reduction of operating costs.

The Digital Oil Field in OMV Petrom consists of the following main components:

- ▶ Operational HUB
- ▶ Automated Surface Production Facilities
- ▶ Well Automation



Operational HUB is a collaborative work environment that is monitoring 24/7 the automated systems in OMV Petrom Assets. In 2016, an initiative was started to install Operational Hubs in all onshore Assets. Eight local centers are responsible for the monitoring of operational sites and facilities and for alarm management, designed to achieve maximum efficiency and productivity.

Automated Surface Production Facilities

Metering Point Skids (MPSs) are designed to replace gathering facilities, which are oversized in terms of current production level

and footprint, with automated fit-for-purpose skids. MPSs are used to measure the production volumes. Relevant operational and maintenance data are SCADA integrated.

Deviations from normal operating envelopes are indicated with alarms which trigger the intervention through mobile teams in the field.

Well Automation

The aim of Oil Well Automation is to monitor and optimize the function of artificial lift systems remotely to increase lifting efficiency and run life of surface and downhole components. The mature environment of OMV Petrom fields necessitates such artificial lift systems on 95% of oil wells in order to produce the hydrocarbons to surface.

Successfully piloted in 2009 on a group of 60 wells, an ambitious roll out plan was implemented, reaching more than 4,000 automated oil wells by end of 2016, despite the low oil price environment in the past 2 years. All wells are linked via data transmission to a monitoring and pump optimization software package, allowing real time access to current operating conditions, as well as trending of historic short-term and long-term parameters. Dedicated artificial lift engineers are constantly monitoring and optimizing well parameters from central locations.



The installation of pump off controllers equipped with latest sensor technology enabled an increase in pump efficiency by optimizing effective well uptime per day, thereby, reducing energy consumption per barrel of oil produced. Average sucker rod pump efficiency was

increased from 46% in 2010 to more than 70% in 2016 resulting in lower energy consumption of more than 15% per well.

Mean time between failure related to surface and downhole equipment has more than doubled since 2010, in part, due to the proactive approach of remote well parameter monitoring and pre-emptive actions taken before equipment failure occurred.

New performance models and alarm management workflows were developed and implemented focusing the attention of staff on data quality and alarm relevancy before taking a decision. All wells are linked into the Operational Hub along with the facilities supporting the coordination of mobile teams to address alarms requiring field intervention.

One of the **major challenges** during the roll out was to ensure consistent data communication in remote locations and hilly terrain. Through close collaboration, teams from Upstream, IT and telecom network service provider succeeded in connecting those geographical areas in 2016 via network extensions, IT infrastructure monitoring and alternative communication technology.

Besides oil wells, OMV Petrom has equipped more than 300 water injection wells with sensor technology and data communication to achieve water injection surveillance and waterflood optimization.

Based on the good results achieved, OMV Petrom will continue to roll out this well automation technology to additional wells. The strategy for Well Automation Project by 2021 is to extend the technology, to upgrade and integrate into SCADA around 700 new wells and more than 600 wells equipped with old automation systems.

MTBF more than doubled since 2010

New identity of Petrom brand filling stations



New, modern and constructive identity

Petrom retail assumed a new, modern and constructive identity, yet it preserves the traditional values that brought it closer to the customers' hearts.

We fuel Romania. Yet, this doesn't mean that we are just a company, we also wish to be a trustworthy partner, to do things better, so that we become or simply maintain ourselves as the first choice for our clients. This is what we have been doing for over 150 years, while we kept close to them. We have listened to them to learn about their wishes, their expectations towards us and we always kept them in mind. This is how we brought them in our filling stations and they keep on coming, as they became regular customers. That's how we built on awareness and loyalty for our brand. They have the need, we have the solutions – keeping them moving, safe and offering what best suits them.

We know they wish to get more for what they spend. They are smart buyers, targeting the best deals, so we offer them relevant promotions and the best price-quality ratio. They want to quickly and easily get the products and services they are interested in, looking for proximity and comfort, and that is why we have filling stations in the right locations. They wish to be treated with respect and appreciation, to be spoken to nicely and

to easily find out the details/information they need to make decisions. That's why here they will find a kind and well trained team.

Together for Romania

For the Romanians and the relationship we have developed, it is now time to evolve, to go further together, successfully. It's time to launch the new Petrom brand promise, which defines us through values and essence: **Together for Romania**. We evolve, yet we maintain our identity and the values we cherish. We still follow our beliefs, the way we act as a brand and how we wish to be seen by our customers. We must constantly review ourselves and check if these values and principles are respected. Only this way we can know for sure we are on the right path and we shall not disappoint Romanians. Our values are simple, but relevant for the way we see things and maintain the relationships we managed to develop. We are **honest**, because respect is important both towards customers and team mates. If we want real, long-term success, it's essential that "together" doesn't end up as a broken promise. We are **down-to-earth**, just like the Romanians evolving by our side. We set our goals and reach them, focusing on results, being ambitious, transparent and clear in all our actions. We are **responsible**, not only by offering constant quality, but also by trying to make journeys safer, by educating

and sharing our experience. This is what makes us a team. We work for a better tomorrow for everyone. This way we are **Together for Romania**.

A modern brand, trustworthy employees and partners

Each and every action or communication material in the stations will reinforce the brand promise "Together for Romania", within a new visual identity for the 400 Petrom branded filling stations. Also, the team members in the stations will wear a newly designed outfit, a very important issue of Petrom brand identity. With its lines and color combinations, the outfit builds on maintaining the credibility and positive image of the brand. In order to see all of these happening, the change must be understood and acknowledged by every colleague and partner in the stations. To ensure this, Petrom set up four informative events in Bucharest, Iași, Cluj-Napoca and Timișoara. The caravan entitled "Life Beats the Movie" hit the road with the purpose of presenting the news of the platform to employees and partners in the Petrom brand filling stations, aiming to inspire and empower

them to join us on this new journey.

We get Romania in motion – our promise to consumers

For our customers, we translated the brand essence "Together for Romania" into a clear, powerful and memorable promise: "We get Romania in motion". This is not just an empty promise or a patriotic declaration. Also, it doesn't mean only providing the necessary fuels. It's about our role and place in Romanians' lives, about us helping them reach important destinations, day after day. Because each time they hit the road it's because at the end of the journey someone is waiting for them, someone who's counting on them. For all those waiting, each and every day, we get Romania in motion in any Petrom branded station. It's our answer to Romanians' needs and expectations. We offer them what they need, exactly when they need it: fuels they can count on, filling stations always at hand and a trustworthy team.

Everything so that they keep on going, in order to see their plans coming to life and to start new successful ones. Because we are **Together for Romania**.

Our promise: we get Romania in motion

Increased focus on cost and efficiency

Fit4Future - Time for lean operations

A world where low crude oil prices are considered the new norm brings the necessity of a fundamental shift in a company's culture, increasing its focus on cost awareness and efficiency. Market challenges were dispatched by OMV Petrom in early 2015 and continued with the implementation of Fit4Future program in 2016, targeting to put the entire organization in motion and to change people mindset and behaviors.

Fit4Future is a common goal

The scope of the program has been to adapt OMV Petrom's structures, processes and spending levels to be able to operate successfully and sustainably in a prolonged low oil price environment, and to improve the company's operational cash flow.

Fit4Future builds on the principle that each division's contribution to reaching the committed targets is essential. Moreover, another principle of the program is that targets cannot be achieved by individuals, but that a devoted team spirit is required for bringing sustainable cost reduction and efficiency improvement measures.

OMV Petrom adapted swiftly

During 2015-2016, OMV Petrom made important efforts to adjust the business to market fundamentals.

The entire organization responded promptly and effectively. All divisions jointly contributed ideas for cost-reducing initiatives, both concepts already in development (e.g. PACE¹ Program in Upstream) or new initiatives.

The main focus was on improving the allocation of resources, decreasing purchase prices and materials usage, reducing electricity and fuel consumption and giving a great importance to all details that could generate sustainable savings for the company.

We have revisited most of our commercial partnerships to reflect the new operating requirements and levels of activity. Our business partners adhered to our efficiency goals with contributions in various areas such as the prioritization of maintenance operations,

security service redesign, light and heavy fleet optimization and insurance contract renegotiations.

With remarkable involvement from all stakeholders, taking also an outside-in perspective into account, a leaner organization was designed, using optimum allocation of resources for the processes that create and retain value in our organization.

Overall, the reduction target in operating costs has been reached illustrating the commitment to finding new ways to raise cost awareness within the group and intelligent capital allocation. Successful implementation of cost optimization programs led to a reduction of approx. RON 500 mn in operational costs in 2016 versus 2015, in addition to a similar amount saved in 2015 vs. 2014.

Our journey must continue

Fit4Future will further concentrate on generating value in a volatile environment to enable implementation of strategic objectives, taking a new and fundamental step towards increased competitiveness, which will be achieved by financial flexibility and will benefit from growth opportunities. The step change will be reached by creating excellence centers, formed of multidisciplinary teams from all divisions, which will create the framework to further improve our ways of working and transfer best practices across assets. This endeavor will be supported by new management tracking tools which will monitor the progress of initiatives and assess the impact of the implemented programs.

¹ PACE (Program for Advanced Cost Efficiency) has as scope to increase the competitiveness of the Upstream operations by sustainably reducing production costs, without compromising HSSE and production targets; program portfolio consists of more than 10 subprojects covering all OMV Petrom Upstream Assets, involving multidisciplinary teams across organization.

OMV Petrom S.A. free float increased to 15.8%

October 20, 2016 marked a historical milestone for the company, with the **debut of OMV Petrom S.A. shares trading on the London Stock Exchange (LSE)** in the form of global depository receipts (GDRs) following the secondary public offering (SPO) via which Fondul Proprietatea (FP) sold a 6.4% stake in OMV Petrom S.A.. Each GDR represents 150 shares, with 2,492,328 GDRs being issued in total against the deposit of 373,849,200 OMV Petrom S.A. ordinary shares with Citibank Europe plc, Dublin – Romania Branch, as custodian, for Citibank N.A., which is the depository bank.

The most important **benefit** of the SPO, for both the company and its shareholders, was the **increase in free float** from 9.4% to **15.8%**, which translates into higher liquidity over time. With this listing, OMV Petrom S.A. shares/GDRs became available to a more diverse investor base, including international firms who are not in a position to trade shares in the Romanian market. Also, the research coverage by international analysts is expanding, with Goldman Sachs initiating coverage of OMV Petrom in November 2016 and potentially more analysts to follow. This helps OMV Petrom getting onto the radar of new investors outside Romania.

The SPO – jointly run by Goldman Sachs, Erste Bank, BCR and Wood&Co - was an important event in many ways as it comprised the largest ever fully marketed offering in Romania, the **largest equity transaction in Romania since June 2014** (RON 760 mn, of which USD 19.2 mn was the LSE part) and the largest Emerging Market EMEA Oil & Gas transaction in 2016. Around 85% of the shares/GDRs in the offering were purchased by long term investors. Out of the total, 65% were foreign investors and about two thirds of them are well established names in Central and Eastern Europe.

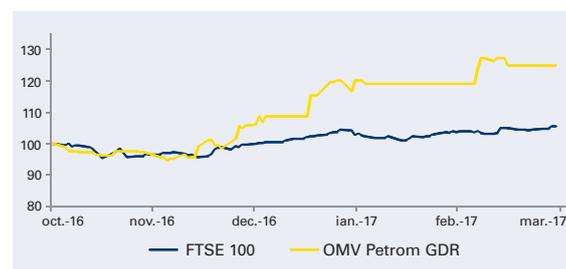
The transaction required the preparation of a prospectus and an extensive due diligence process. It also involved a large number of

external stakeholders, including 15 different companies from at least five countries: from the investment banks syndicate, to law firms (covering three jurisdictions: Romania, UK and US) and five different authority bodies from Romania and the UK. Coordinating the relationship with all these stakeholders and getting their buy-in, as well as the needed agreements and approvals were major challenges for the entire project team. More than 100 colleagues from OMV Petrom, experts from various areas and departments, enabled the success of this complex project via their contribution.

As part of the **marketing** process, members of the project team, together with OMV Petrom's CEO and CFO met 67 institutional investors in seven different locations: New York, Boston, Tallinn, Warsaw, London, Stegersbach (Austria) and Bucharest.

Since October 20, 2016 OMV Petrom S.A. GDRs as well as the local shares have performed very well. Using the GDR closing price at the date of the report, there was a 36% increase vs. the SPO price of USD 7.7. Local shares performance, adjusted for USD/RON FX rate change was similar, with a 40% increase compared to the SPO price of RON 0.21/share.

FTSE 100 and OMV Petrom GDR performance rebased ¹



¹ 20 Oct. 2016 = 100

Largest Romanian equity deal since June 2014

Free float at 15.8% after SPO

România Meseriaşă – at the core of OMV Petrom’s social responsibility initiatives



OMV Petrom supports vocational education in Romania

România Meseriaşă is the program initiated by OMV Petrom in 2015 to support vocational education. In 2016, the program was integrated into the national project Educated Romania supported by the President of Romania and conducted in partnership with the Ministry of National Education and Scientific Research. To accurately assess the environment in which new generations of qualified professionals could develop, **OMV Petrom conducted a research** in partnership with the research and consultancy company Exact in order to identify companies’ needs from the vocational sector, the craftsmen’ expectations on the labor market and the expectations of students who want to develop a certain professional skill. According to the research results, some of the main difficulties companies face in recruiting craftsmen in Romania are the lack of qualification (in 65% of cases), lack of experience (64%) and lack of commitment of potential employees (65%). In addition, 85% of employers consider that the number of graduates of vocational education is insufficient and leading to six out of ten companies resorting to unskilled labor to cover staff shortages. The study highlighted also the fact that one third of the graduates from vocational education aspire to become managers or to pursue higher education and

that only two out of ten Romanians appreciate trades and craftsmen. Also, 60% of craftsmen would not recommend this job to a loved one. Moreover, eight out of ten interviewed craftsmen claim they were trained outside of vocational schools, through direct experience, in working through the guidance received from other craftsmen who have been mentors or from colleagues from which they have “stolen” the job. The research has been based on a sample of 1,300 people aged 18-55 years from urban and rural areas, 200 companies employing craftsmen, more than 200 craftsmen and 100 school children.

The results of this research form the basis for a national consultation on major issues and possible systemic solutions for vocational education in Romania, involving stakeholders from authorities, teachers, employers and educational institutions, to public policy experts, journalists and students’ representatives. In May 2016, OMV Petrom hosted at its headquarters the **first public debate**, which concerned the quality of theory and practice in vocational schools and technological high schools in Romania, and also reviewed the links employees have with educational institutions. 40 representatives from the private sector in Romania, educational institutions, media, authorities and NGOs attended the event, which was hosted by Mariana Gheorghe, CEO of OMV Petrom, and Mona Nicolici, Sustainability Manager of OMV Petrom. The objective was to put the topic of vocational education on the public agenda in order to develop relevant national solutions.



Together with the Romanian Academy and the Research Institute for Quality of Life, OMV Petrom conducted a public report, „Vocational education – challenges and long-term perspective”. The report contains a comprehensive analysis from the perspective of different stakeholders (employers, policy makers, students, trade unions, non-governmental sector, teachers), and recommendations that can contribute to a long-term development strategy in vocational education in Romania.

Vocational summer camp from Andrei’s Country

One of the initiatives part of România Meseriașă program is the **vocational summer camp** from Andrei’s Country, a project of technical and vocational education which consists of professional and personal workshops that help students be better prepared for the labor market after completing their studies. Since 2015, almost 500 students from 41 technological and vocational high schools in five counties took part in the camp to deepen their theoretical and practical skills in the area where they wanted to practice. Starting from the needs of the local labor market, the project supported various specializations: auto mechanic, well operator, cook, barber and tailor. Along with the students, almost 100 teachers attended the vocational summer camp and developed their leadership skills. In total, 60 scholarships were offered by OMV Petrom for the best students from the summer camp.



Oilmen’s school

Another project within România Meseriașă

is the **Oilmen’s school**, through which OMV Petrom supports post-secondary public education institutions that prepare qualified workers for the oil and gas industry. Since 2015, six classes were established in Pitești, Moinești and Târgoviște, where OMV Petrom was involved both in the development of mechanical laboratories and in updating the training materials. Almost 170 students, selected from more than 440 applications, were included in this project. They received training in their chosen speciality from the oil and gas industry and completed practical experience with OMV Petrom. In addition, each student received up to RON 700 per month scholarship granted by OMV Petrom based on performance.



International recognition

România Meseriașă received the **gold award at the 2016 SABRE Awards Gala** (Superior Achievement in Branding & Reputation Engagement), held on May 25, 2016 in Berlin. The award confirms the positive impact of this OMV Petrom initiative, since more than 2,000 campaigns took part from Europe, the Middle East and Africa.

**~170 students
selected for
Oilmen’s school**

**România
Meseriașă - gold
award at SABRE
Awards Gala**

Statement of the Chief Executive Officer



Dear Shareholders,

2016 was another **challenging year** for the global oil and gas industry, offering a mixed picture with increased price volatility.

On January 20, we saw the Brent price at its 13-year low

of USD 26/bbl, followed by a strong recovery throughout the year, especially after the OPEC agreement in November. European gas prices were also volatile throughout the year, while the refining margins trended downwards from 2015 peaks due to persistent overcapacity in Europe. Romania's GDP grew by 4.8% in 2016, one of the highest rates in the European Union, largely reflecting domestic factors, including the VAT rate reduction and wage increases which, in turn, triggered a strong revival in private consumption. The economy created new jobs almost every month in 2016, pushing up employment to its pre-crisis level. However, we also witnessed increased competition in Downstream as well as regulatory and fiscal uncertainties at the local level.

In this context, we achieved several **strategic milestones**, while on the operational side, we delivered on important objectives. We further capitalized on our integrated business model, showing resilience in our results. Our swift reactions to challenging market fundamentals continued. As the CEO I am proud of the successful implementation of **cost optimization** programs that have led to a reduction of approx. RON 500 mn in operational costs in 2016 versus 2015, on top of a similar amount saved in 2015 versus 2014. Capital expenditure was reduced by approx. RON 1.3 bn in 2016 compared with 2015 as a result of the reprioritization of projects, mainly in Upstream, based on the value over volume principle. As a result of these actions, our 2016 free cash flow improved by RON 1.2 bn to RON 1.6 bn and we maintained a strong balance sheet, featured by the switch to a net cash position.

Looking at each business segment, in **Upstream**, we continued implementing efficiency

enhancement measures and achieved a significant cost reduction, with OPEX coming down by 10% to below USD 12/bbl. This helped to offset the 2.5% decline in daily hydrocarbon production, but could not compensate for the impact of lower prices. Nevertheless, we are proud of having managed the production decline well below the upper limit of our guidance of 4%. We have laid the foundation for a more efficient footprint through divestment of several marginal fields and the renegotiation of two Production Enhancement Contracts.

In **Downstream Oil**, in the context of strong competition in our operating region, our retail sales volumes advanced partly offset by the weaker, but still good refining margins. Our non-retail sales volumes were impacted by the planned one month refinery turnaround; nevertheless, the refinery utilization rate was slightly higher yoy at 89%. The segment's contribution to our clean CCS results improved by 14pp to around 66%, also helped by cost efficiency measures.

In **Downstream Gas**, we achieved a good overall performance, with segment results turning positive, despite persistent pressure on volumes and margins in the gas business and the fact that the power business has not reached its full potential due to the unplanned outage of the Brazi power plant in Q4/16. However, the power business' contribution improved as a result of a good mix of spot and forward sales and supported by higher spark spreads. Segment results were also helped by a favorable evolution of provisions for outstanding receivables.

Based on the results and strong free cash flow achieved in 2016, we, the Executive Board, proposed and the Supervisory Board approved a **gross dividend of RON 0.015/share for the 2016 financial year**. This is subject to the approval of the GMS to be held on April 25, 2017.

A significant milestone in 2016 was the **October 2016 SPO** via which FP sold a 6.4% stake in OMV Petrom, our free float increased to 15.8% and our GDRs were listed on the LSE. Since then, both the local shares and GDRs have performed very

**Another
challenging year**

**2016 free cash
flow improved to
RON 1.6 bn**

well (using the closing prices at the date of the report, there was an increase versus the SPO prices of around 40%).

Over the past five years, we have worked hard to make OMV Petrom a leaner, more efficient and more resilient business in a challenging environment. Our response to changes in our operating markets and industry trends triggered a review of our strategic options and priorities set in 2012, an exercise we conducted in 2016. Our **Strategy Update 2021+** reaffirms the current direction of the company, ensuring continuity in generating sustainable performance. It is based on our vision of providing sustainable access to a variety of energy sources to meet the needs of everyday modern life. It takes us to the next level of ambition in our development journey rather than being transformational.

We will enhance our efficiency and integration, maximize our Upstream portfolio's potential, pursue growth opportunities that Romania still offers and expand our regional footprint. We shall do so by leveraging the power of our people and assets, with sustainability at the core of our business and embedding technology and innovation in our daily operations. Enhancing our offer and brand experience to meet customers' evolving demands is critical to the company's success. For our shareholders we are committed to deliver an attractive dividend, while maintaining a strong balance sheet.

We have set for ourselves clear **targets** to measure the success of our strategy: a 100% reserves replacement rate by 2021, annual average capex of EUR 1 bn between 2017-2021, a positive free cash flow after dividend distribution for the majority of the period and a clean CCS ROACE of more than 10% by 2021. We are confident that all our stakeholders will see the benefits of our long-term, value-creating strategy, which we believe is preparing our company for an industry evolving at a very rapid pace.

Looking ahead, the operating environment remains challenging and volatile. Nevertheless, supported by improved commodity prices and

continued cost savings, we expect to achieve a positive free cash flow after dividends in 2017. Overall, we continue our efforts to maintain a strong balance sheet and remain committed to offering an attractive dividend to our shareholders throughout the period 2017-2021. In order to achieve these targets, our focus in 2017 remains containing the hydrocarbon production decline to 3% yoy and prioritizing investments of the CAPEX budget of EUR 0.8 bn. Safe and profitable delivery of our main strategic objectives, while not losing sight of longer-term industry opportunities, remain key prerequisites to meet our shareholders' expectations.

Overall, we, as management, and our entire organization remain committed to maintain the business agility of the company.

Mariana Gheorghe

Committed to offer an attractive dividend

OMV Petrom objectives and strategy

Integrated business model

OMV Petrom in brief

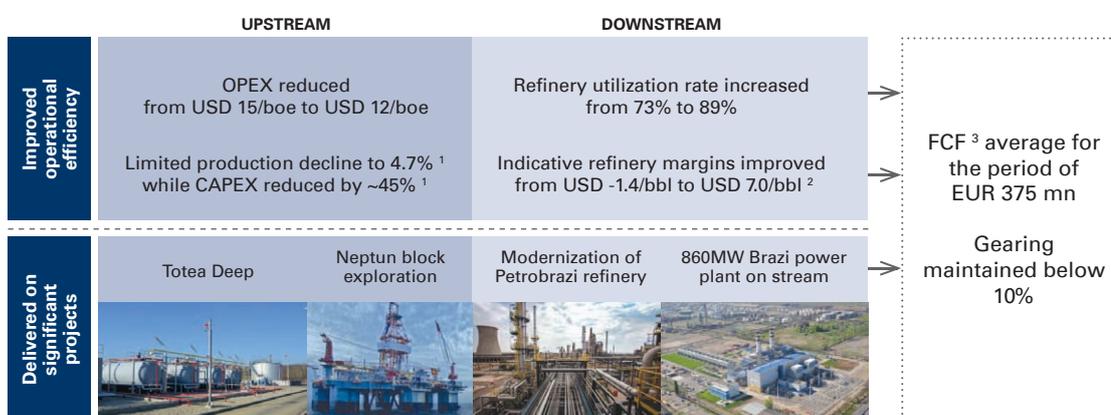
OMV Petrom is the largest integrated oil and gas group in Southeastern Europe and the leading industrial company in Romania. OMV Petrom is part of the OMV Group, also an integrated, international oil and gas player. The company is organized in three operationally integrated business segments – Upstream, Downstream Oil and Downstream Gas. In Upstream, OMV Petrom is present in Romania and Kazakhstan, with a portfolio of 606 mn boe proved (1P) reserves and hydrocarbons production of around 64 mn boe in 2016 (thereof nearly 4 mn t of crude oil and NGL and 5.3 bcm of natural gas). The Downstream Oil portfolio comprises the 4.5 mn t/y capacity Petrobrazi refinery, which can process OMV Petrom’s entire Romanian equity crude oil, as well as a 783 filling stations network operated via two brands, Petrom and OMV, located in Romania, Moldova, Bulgaria and Serbia. The Downstream Oil segment generated 4.9 mn t refined product sales in 2016, thereof 2.6 mn t retail sales. The Downstream Gas segment is the company’s sole gas marketing channel, accounting for 50.4TWh sales volumes in 2016 (thereof 43.9TWh to third parties). The Downstream Gas portfolio comprises the 860 MW gas fired power plant Brazi and the 45 MW wind park Dorobanțu, which cumulatively generated 2.9TWh of electricity in 2016. OMV Petrom consolidated its position in the oil and gas market following a comprehensive

modernization and efficiency enhancement program backed by investments of almost EUR 13 bn over the past twelve years, since privatization. During this period, OMV Petrom has provided a stable base for Romania’s economy as a reliable energy supplier, a major employer and a significant contributor to the state budget. Creating value for our customers by increasing customers satisfaction and experience has been one of our objectives. The company considers its responsibilities to its employees and the environment to be a priority. To this end, OMV Petrom has worked hard to lower the lost time injury rate and to consistently reduce its greenhouse gas emissions and water intensity. In addition, OMV Petrom also offered attractive returns to its shareholders by paying around EUR 900 mn during 2012-2016 as dividends.

Five years of successful value generation

Since the latest revision of its strategic directions in 2012, OMV Petrom has made continual progress towards improving operational efficiency and maximizing value creation, despite regulatory and fiscal challenges, in addition to the difficult oil price environment during the past two and a half years. The highlights of the achievements are summarized below:

Performance 2012 - 2016



¹ 2016 vs. 2012; ² Of which modernization of Petrobrazi refinery contributed USD ~5.0/bbl; ³ Free Cash Flow

These five years of consistent value generation demonstrate that OMV Petrom has successfully transformed its business in terms of efficiency and talent, capitalizing on the integrated business model, strong capital management and a solid balance sheet ensuring flexibility and results resilience. To extend this success and to respond to the current oil and gas market environment, OMV Petrom has decided to review its strategic directions with a key focus on mid-term priorities (up to 2021), but also taking into account longer-term perspectives (up to 2026).

OMV Petrom’s vision

OMV Petrom’s vision is to provide **sustainable access to energy for everyday modern life** by building a business that is ready for change and able to meet the evolving demands of its customers. The **Strategy Update 2021+** reaffirms the current directions of the company, ensuring continuity in generating performance. OMV Petrom is committed to maintaining and strengthening its position as a leading integrated energy player in the region, ensuring its long-term growth, focusing on the

opportunities that Romania still offers while enhancing customer experience and developing its portfolio through regional expansion. A strong HSSE record is the foundation of OMV Petrom’s operations and therefore will continue to be a focus, especially in relation to health and safety among employees and contractors.

Strategy Update 2021+

The Strategy Update 2021+ is centered on three strategic pillars, all contributing to our commitment to ensure profitability while maintaining a strong balance sheet and offering attractive shareholder returns: *enhancing the competitiveness of the existing portfolio, developing growth options and regional expansion*. Success in achieving our 2021+ objectives is built on three strategic enablers: *People and Organizational Culture, Sustainability, and Technology and Innovation*. With a clearly defined execution plan, the strategy addresses the sustainability of our reserve base, targets the maximization of operational efficiency and explores opportunities along the value chain, preparing the company for new developments in the energy sector.

Three strategic enablers

Three strategic pillars



Focus on creating a more agile organization

Enhancing competitiveness in the existing portfolio

OMV Petrom will continue to deliver operating efficiencies across all business segments through **operational excellence**, with a focus on **value over volume**, while technology initiatives will help create a more agile and efficient organization. Although significant operational improvement has been made thus far, OMV Petrom will continue implementing efficiency measures started in the previous years, through operational excellence while driving down unit cost.

Realizing the potential of the existing **Upstream** fields and streamlining the portfolio will contribute to long-term sustainability. A number of initiatives have been envisaged to maximize economic recovery from the existing fields. This strategic direction will complement the exploitation of 1P and 2P reserves. The current drilling and workover programs will be continued. These will be supplemented by infill drilling campaigns and selected field redevelopments using latest technologies such as reservoir modelling and improved drilling capabilities. Digital opportunities through the rollout and governance of OMV Petrom's digital oilfield will be leveraged to achieve full potential from the Romanian asset portfolio. While there is motivation to increase the reserves base, this will be done only if it can deliver value. OMV Petrom will continue to streamline its portfolio by disposing of non-value adding assets and marginal fields.

The combination of drilling, workover and field redevelopment programs will improve our current recovery rates and will lead to 28% ultimate recovery rate for oil and 55% ultimate recovery rate for gas. Maximizing economic recovery from our current producing assets will be a key contributor to the **100% RRR target**. The modernization of existing facilities and simplification of installations in Upstream will further support our efforts to improve competitiveness, targeting an additional 100 modernized facilities by 2021 in addition to the 300 already modernized facilities. In regards to the mean time between failures (MTBF)

indicator, OMV Petrom is proud of the 2016 achievement, namely 555 days. The target for 2021 is to further increase this value up to 750 days.

In **Downstream Oil**, the focus remains on capturing the **highest integrated operational value**. Programs started to maximize the availability and utilization of the Petrobrazi refinery will be continued as part of the Strategy Update 2021+. We target a 92% utilization rate by 2021, while fuels and losses are expected to decrease from 9% in 2016 (excluding turnaround effects) to 8.7% in 2021 mainly due to the implementation of bio fuel legislation in 2020. Improvement of overall efficiency of the refinery to reach international benchmarks is supported by the planned 2018 turnaround as well as a number of other projects planned for the next period. In Retail, the **increase of the throughput per filling station** is an important objective in the area of enhancing competitiveness of the business.

Downstream Gas will also continue to capture the **benefits of the integrated gas and power business model**, leveraging its assets and product portfolio to secure long-term sustainable results. By consolidating the current customer base, strengthening the traditional commercial relationships with some of the largest consumers in Romania while diversifying towards more attractive segments, Downstream Gas business will contribute to the overall performance of the Group with stable gas sales volumes over the period 2017-2021.

Becoming an **agile and efficient organization** is a prerequisite for long-term success. The entire organization committed to deliver further cost savings, leveraging technological initiatives and simplifying processes in line with the company-wide focus on efficiency.

Developing growth options

In **Upstream**, the second pillar of the strategy is centered on the Neptun Deep opportunity. The second exploration drilling campaign was completed at the beginning of 2016. By

100% RRR target

the end of 2016, total investments in Neptun Deep exceeded USD 1.5 bn, out of which 50% is the OMV Petrom share. Development of the discovered resources (if commercially viable) would involve additional investment in the range of billions of USD. More detailed work is ongoing to determine if commercial development is viable. In order to assess the project's commercial viability, a lot of variables need to be considered: endogenous factors (volumes, concept, costs) and exogenous factors such as the fiscal and regulatory framework and gas market developments (gas price, potential buyers, transportation network etc.). The Neptun Deep project, if it proves commercially viable, would be a key contributor to the **100% RRR target** and would help Romania to enhance its energy security.

Besides Neptun, several prospects in deep onshore Romania and shallow offshore will **rejuvenate the portfolio** and offer development opportunities over the next few years. In addition, the exploration funnel will be fed with opportunities arising from participating in new licensing rounds.

In **Downstream Oil**, increasing integration value remains the core of the ongoing strategy. A number of projects will sustain and grow the contribution of this business segment as the market adjusts to the new price environment. The Polyfuel project will generate a competitive advantage through increased output of high value products and a more flexible production structure by 2019. The production mix will also be complemented by **exploring technological opportunities** for oil capitalizing on skills and assets. The modernization of the fuel storage network will be completed in 2018, leading to higher efficiency of operations.

In the Retail segment, an increase in throughput per filling station is the strategic objective, despite the increase in the competition on the market. OMV Petrom will expand its filling station network to capture volume from high traffic areas. Providing a differentiated product offer and an enhanced customer experience are essential to the success of the Strategy

Update 2021+. OMV Petrom will continue to operate two distinct brands, Petrom and OMV. With Petrom, the **"Value for money"** brand, the Group aims to increase traffic in the filling stations by partnering with retail brands with a loyal customer base, such as Subway and Auchan, in order to increase overall sales. Likewise, the international OMV **"High quality leader"** brand continues cooperation with Mastercard and KFC (KFC partnerships in Serbia and Bulgaria only) and with digital partners, enhancing customer experience and brand perception in the market.

In **Downstream Gas**, we aim to offer an attractive, broadened value-proposition to the customers in order to **extend domestic reach**. Our efforts are concentrated on expanding and diversifying the gas customer portfolio by increased **product competitiveness** and advanced customer interaction. Innovating and enriching the commercial proposal is one of the targets, for example by offering integrated energy solutions/multiple products and services. In addition, we aim to **explore value-adding opportunities** for gas, as this will be another growth direction that we pursue, looking for opportunities and partners that may result in higher gas consumption in Romania. Fiscal stability and removal of the regulatory barriers to sell gas will be key to the development of our business.

For both Downstream Oil and Downstream Gas, the implementation of **technology initiatives**, such as Smart Apps and Price & Portfolio Optimization to automate interfaces for customers and partners will enable process automation and faster data management.

Regional expansion

Opportunities for regional expansion in Upstream and Downstream Gas will complement the existing portfolio in order to secure sustainability of the business and of its reserve base. OMV Petrom's extensive experience of operating mature assets in Romania and Kazakhstan creates a strong position to expand regionally through **selective investments**. The near-term priorities lie in the

**Two
retail brands**

**Well positioned
for regional
expansion**

Caspian region and Western Black Sea and could extend further over time. In Downstream Gas, structural changes in the market create opportunities for expansion outside Romania. EU initiatives and regulations such as the Energy Union and Third Energy Package seek to integrate energy markets and modernize the internal market for gas in order to increase security of supply across the continent. In line with these developments, OMV Petrom intends to diversify its sales channels once gas interconnectors are developed. As Neptun Deep comes on stream, subject to confirmation of commercial viability, regional expansion will be an important mean of monetizing the gas.

Strategic Enablers

► People and Organizational Culture

We place people at the core of our business. We strive to create a workplace that is fulfilling, diverse and learning oriented. We engage talented teams to drive safe and efficient business performance. Our strategic objectives – Passionate People, Safe and Supportive Workplace and Teamwork – will be accomplished through three main initiatives: 1) developing existing managers into leaders who support collaboration and innovation; 2) implementing performance indicators and refined development systems; and 3) encouraging knowledge sharing to improve skills across the workforce.

► Sustainability

We strive to operate in a safe, efficient and responsible manner to create sustainable value for the company and for all our stakeholders, now and tomorrow, considering the UN sustainable development goals. Our defined strategic objectives are: Environment & Eco-Efficiency, Economic Sustainability, and Corporate Social Responsibility. As a responsible corporate citizen, OMV Petrom continues to focus on: 1) operating in a safe, efficient and responsible manner to create a sustainable value proposition for all stakeholders; 2) creating an organizational culture with safety ambition goals of ZERO Harm – NO Losses; and 3) supporting long-

term economic growth through community led initiatives.

► Technology and Innovation

We embrace advanced technology and digitalization to innovate in our business for a sustainable future and to enable valuable customer experience. Enable Agile Business Execution, Leverage Data Assets and Eco-Innovation are the strategic objectives defined for the next years. OMV Petrom's ability to leverage technologic advances and adopt them as a smart follower will be a determinant of the company's long-term success, ensuring rapid adjustment to the business environment. OMV Petrom has already begun to utilize digitalized wells and implement predictive analytics and maintenance tools throughout the business to improve efficiency. Looking ahead, the roll-out of a company-wide Idea Management system will facilitate the collection, selection and implementation of innovative ideas across the business. Beyond idea generation, the automation of OMV Petrom's business will enable deep and detailed views of customer behavior across all channels and rapid adaptation of the business to real-time market dynamics.

Key targets for successful strategy implementation

Clear, robust **targets** were set by management to measure the implementation of the strategy. OMV Petrom needs to achieve **100% RRR** to secure the long-term future of the business. Therefore, based on market assumptions, the aim is to allocate **capital expenditure of approx. EUR 1 bn per year** and maintain a **positive free cash flow after dividend distribution** for the majority of the period. **Clean CCS ROACE of more than 10%** is expected by 2021, despite investing about EUR 5 bn in total during 2017 - 2021. This amount of investment includes Neptun Deep development (if it proves commercially viable). In addition, OMV Petrom is committed to maintain a **strong balance sheet** and deliver an **attractive dividend**.

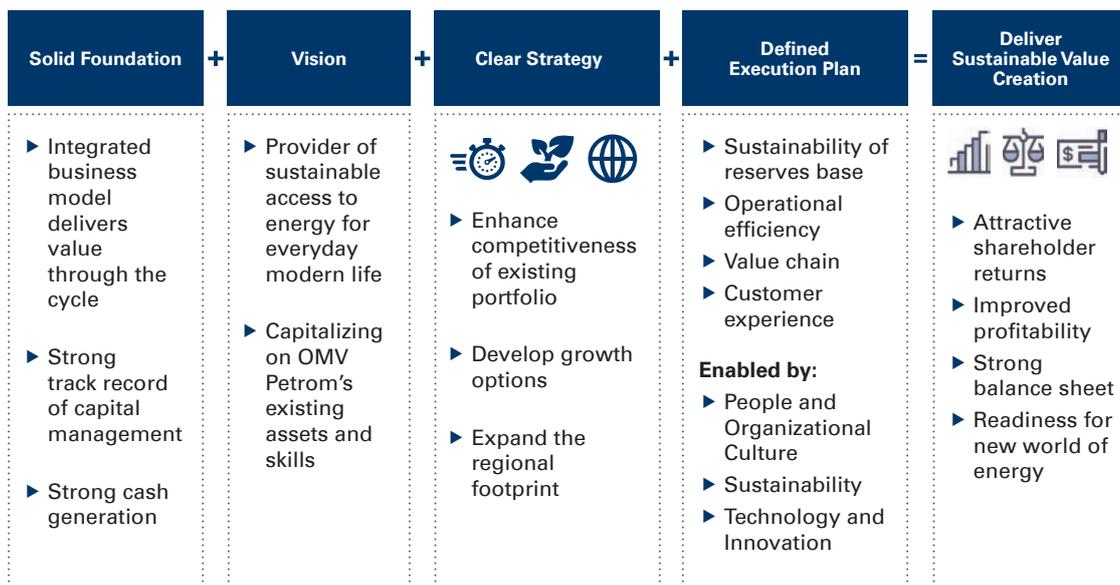
The path to long-term success

The ambition of the **Strategy Update 2021+**

Clear targets and strategic enablers

is the creation of a stronger company, well-prepared for the rapidly changing energy market. Patterns of consumption are swiftly evolving, reflecting the increasing adoption of electric vehicles, decentralization of energy systems and other technological innovations across the sector. Remaining competitive in

the long-term and securing OMV Petrom’s license to operate will require a shift in the organizational culture, commitment to sustainability and the adoption of new technologies to keep pace with industry changes.



Sustainable value creation

Sustainability / non-financial statement

OMV Petrom sustainability strategy: Resourcefulness

As the largest integrated oil and gas producer in Southeastern Europe, OMV Petrom's aim is to secure a reliable energy supply for society, especially in times when the industry faces significant challenges, while seeking to minimize business risks, support development of the communities where the company operates and minimize its environmental impact.

OMV Petrom's sustainability strategy, Resourcefulness, brings together the company's responsible commitments on HSSE, diversity, business ethics, human rights and stakeholder engagement and it focuses on three key areas:

- ▶ **Eco-Efficiency**
- ▶ **Eco-Innovation**
- ▶ **Skills to Succeed**

Key sustainability areas



The Resourcefulness Steering Committee is the governance body that manages and oversees OMV Petrom's Sustainability strategy. It is chaired by the company's CEO, comprises representatives of each Resourcefulness topic and business segment and is responsible for developing projects, informing and aligning all functions and business units in all sustainability initiatives. The committee's meeting in 2016 was dedicated to promote a responsible behavior along the supply chain. In 2016, more than 230 managers integrated Resourcefulness objectives

Resourcefulness objectives embedded in the performance goals of more than 230 managers

in their performance and development goals. Furthermore the internal engagement in Resourcefulness was obtained through volunteering projects initiated by employees with the aim of contributing to solving community problems.

Eco-Efficiency

OMV Petrom aims to limit the environmental impact, particularly in the area of energy efficiency, greenhouse gas (GHG) emissions and water management.

Energy efficiency projects contributed to a further reduction of overall GHG intensity, by 5.9% ⁱⁱ in 2016 versus 2015. In Upstream, the main contributors were the reduction of gas consumption (e.g. by replacing the old degasolination technology with low temperature separation technology at PEC Timis-Calacea and by modernizing /optimizing the facilities in Asset 2 and PECTurnu) as well as the reduction of flaring and venting (e.g. due to Gas to Power (G2P) projects and improved asset integrity). As part of the Energy Efficiency G2P Program, three new G2P&CHP power plants were commissioned in 2016. The total G2P/CHP installed capacity at the end of 2016 was 65 MW, and a cumulative production of more than 1,400,000 MWh was obtained since the beginning of the program, in 2008.

In Downstream Oil, energy projects at the Petrobrazi refinery targeted the reduction of energy consumption and the increase of energy efficiency. The reduction of energy consumption was based on heat integration in the naphta hydrotreater, gas fractionation and ethyl-tertiary-butyl-ether (ETBE) units by installing new heat exchangers. This was also based on recovery of condensate by installing a new pump in the gas desulfurization and sulphur recovery (DGRS) unit. Increased energy efficiency was achieved by replacement of trays in the catalytic reforming (RC) unit.

Eco-Innovation

In 2016, OMV Petrom continued to collect ideas that met the criteria of sustainability, energy saving, alternative fuel. Three projects were selected to be further developed and

ⁱⁱ Indicator under EY audit – might suffer modifications

implemented: flare to fuels, flare gas ejector system on the central platform of Petromar, and linear rod pump (LRP) power optimization.

Skills to Succeed

OMV Petrom builds trust with its communities in order to maintain its **social license**, whilst running an efficient business. The company's utmost social responsibility is to stimulate economic growth in over 80 local communities where it operates and it does so by fostering the skills that people need in order to be successful.

The strategic focus on Skills to Succeed was on vocational education and entrepreneurship.

One initiative within "România Meseriașă" – the main program on vocational education of OMV Petrom – was the **vocational summer camp** from "Andrei's Country" (OMV Petrom's social responsibility platform), a project of technical and vocational education consisting of professional and personal workshops that help students be better prepared for the labor market after completing their studies. In 2016, 270 students from Gorj, Bacău, Dâmbovița and Argeș counties, studying in the oil & gas, mechanic, electric, constructions, tourism and alimentation fields, were trained in communication, employability, eco-civic responsibility, entrepreneurship, teamwork, via practical workshops; 55 teachers were trained to develop leadership skills in the educational system and to communicate better with students; 40 scholarships were offered for the best students from the summer camp.

In 2016, we also started "Oilman Scholarship"; a scholarship offered to the best students in the Oil and Gas University of Ploiesti and the Polytechnic University of Bucharest. In 2016, five students benefited from this opportunity.

"**Made in Andrei's Country**" is a project for entrepreneurial education shaped as a grant competition and a school of social entrepreneurship for people with initiative who want to change the lives of their communities. The project has as objective to set up ten social businesses in order to bring economic and

social value in the OMV Petrom communities. The winners of the second edition were announced in 2016. The new social businesses created jobs for 21 people, out of which 16 for disadvantaged people.

Through all our projects, almost 14,000 people from OMV Petrom communities benefitted from educational initiatives in 2016, out of which more than 250 received scholarships. Almost 770 people received qualifications and support in order to become competitive on the labor market.

The company has identified the **key topics** influencing its performance and, for each of them, it constantly measures the effects of its actions, with the purpose of subsequently identifying the most adequate improvement solutions, both for OMV Petrom and its stakeholders.

1. Health, safety, security and resilience, environment (HSSE)

HSSE is a key underlying value of OMV Petrom's business. The physical and mental well-being and safety of employees, as well as the integrity of operating facilities, are of crucial importance for the company. Loss prevention and proactive risk management are essential to maintaining the company's license to operate and to reach its "ZERO harm – NO losses" vision.

Health

- ▶ Private health insurance was maintained as one of the most important employee benefits; there were over 4,200 beneficiaries in 2016;
- ▶ Annual screening programs were offered to eligible employees: over 11,000 employees were screened for cardio-vascular risks; over 8,000 employees screened for hepatic risks; over 9,000 employees screened for diabetes and over 3,000 vaccinated for flu;
- ▶ Financial support was offered for medical treatment of 15 employees with severe health issues;
- ▶ The "Health: On!" platform was consolidated among employees through several initiatives: "Passport for Health," a company-wide contest rolled out to encourage employee

Zero harm – No losses vision in HSSE

Safety is our priority

engagement in company’s health programs; “Win Health: On!”, a contest (based on health knowledge) held in OMV Petrom’s headquarters with 135 participants; four workshops on health topics were held with level 1 and 2 managers from all divisions.

Safety

- ▶ OMV Petrom continued the behavior based safety program “Safer Together” also in 2016. Over 500 people participated at learning sessions on the principles of behavior based safety;
- ▶ The Contractors Safety Forum organized in 2016 by OMV Petrom was dedicated to improving the safety performance of

maintenance operations, aiming at the same time to enhance the safety partnership between OMV Petrom and its contractors and to develop a harmonized approach for contractor safety management across both Upstream and Downstream. The 107 participants from the main companies contracted for providing maintenance services and from OMV Petrom, shared their experience regarding the implementation of good safety practices in maintenance operations;

- ▶ More than 2,700 employees completed legal safety and emergency trainings through the internal e-learning and testing platform Link2Learn.

OMV Petrom Safety Performance Indicators

	2014	2015	2016 ⁱⁱⁱ
Lost-time injury rate (LTIR) per one million hours worked for own employees	0.47	0.23	0.25
Lost-time injury rate (LTIR) per one million hours worked for contractors	0.21	0.13	0.19
Lost-time injury rate (LTIR) per one million hours worked combined employees and contractors	0.30	0.16	0.21
Total recordable injury rate (TRIR) per one million hours worked for own employees	0.90	0.50	0.60
Total recordable injury rate (TRIR) per one million hours worked for contractors	0.56	0.31	0.33
Total recordable injury rate (TRIR) per one million hours worked combined employees and contractors	0.68	0.38	0.43

Security and resilience (S&R)

In the field of security and resilience, OMV Petrom focused on three main directions in 2016:

▶ **Detection and prevention of significant losses**

The program focus was geared toward the holistic approach to loss prevention as the basis for development and implementation of controls for the business processes vulnerable to incur significant loss. In this respect OMV Petrom developed a protective security methodology addressing key business areas such as secondary logistics, refinery logistics and procurement. Nine overarching business processes were assessed and mitigation

measures were proposed in alignment with the business.

▶ **Increase operational effectiveness of service providers**

Cooperation protocols with authorities were expanded in 2016. Relations with the National Institute for Earth Physics were set up to strengthen the company preparedness in case of a major earthquake. OMV Petrom S.A. also signed a cooperation protocol with the Romanian Intelligence Service (RIS) via the National Cybernetic Center to ensure an efficient response in case of cyber-crime targeting OMV Petrom’s IT infrastructure. This protocol enabled the organization of a joint crisis management

ⁱⁱⁱ Indicators under EY audit – might suffer modifications.

exercise between RIS and OMV Petrom, based on an IT related scenario.

► **Community engagement for reduction of security incidents**

In 2016, we continued the engagement with four communities from OMV Petrom's operating areas (Moinesti, Zemes, Gura Ocnitei and Moreni). The aim of the project was to bring the company closer to the people living in the communities where it operates and to increase the safety and security awareness among the residents. The company representatives discussed with more than 400 people from these communities on security related topics, they conducted volunteering activities and together with the authorities (Police, Gendarmerie and IGSU), they implemented preventive campaigns for more than 800 children.

Environmental management

OMV Petrom manages its environmental impact along the entire value chain, aiming to use natural resources efficiently and minimize waste and emissions to air, water and land. The company aims to prevent and reduce oil spills and leakages.

In 2016, the pipeline integrity software was enhanced and 2,613 km pipelines with high volume / high risk of failure, now have high accuracy data within Geographic Information System (GIS) and PODS (Pipeline Open data Standard). As a result, the repair program implemented for pipelines has shown a significant downward trend of the number of leaks during the second half of the year. The Process Safety Hazard and Operability (HAZOP) program will commence its penultimate year for high risk facilities with a total of 123 completed by the end of 2016, and 80 remaining for completion during 2017-2018.

Emergency drills were performed in all Upstream organizational units in Romania to strengthen the response in case of incidents. In 2016, we continued to roll out the extensive environmental awareness campaign "Shaping environmental values through performance", which targeted around 200 employees at OMV Petrom headquarters level and was aimed at

promoting environmental performance and good practices.

Efforts to protect water resources resulted in an overall reduction of fresh water withdrawal intensity by 6.2% ^{iv} in 2016 versus 2015. In Upstream, we continued carrying out preventive maintenance and repairs to reduce water loss, as well as optimizing fresh water supply systems and parks modernization / downsizing. The new water treatment plant at Suplacu de Barcău oil field is planned to be finalized early-2017. The construction was completed and the electrical, mechanical and civil works are in progress. This new plant replaces the existing one and incorporates the latest available technology. It is provided with physical, chemical and biological treatment units, as well as with activated carbon filtration system for water-treatment before discharging to Barcău River.

In Downstream, the Petrobrazi refinery maintained its lowest water intensity in the last years as result of the previously implemented projects (e.g. recovering condensate, upgrading steam tracers batteries, reducing purges and optimizing the drinking water network).

2. Human rights

As a member of the United Nations Global Compact (UNGC), OMV Petrom embedded their principles into its own human rights policy and code of conduct. We continued to require all business partners (e.g. suppliers and sub-contractors) to adhere to the company's policy and encourage them to develop similar standards. In 2016, we conducted a pilot audit to one of our sub-contractor on subjects related with compliance, human rights, quality, stakeholder engagement and HSSE.

In December, we launched a new e-learning training tool on human rights that is available for all employees.

2016 was the third year when the company benefited from the services of the ombudsman department, called PetrOmbudsman. There was a definite shift from operational cases towards more complex issues that required in-depth

Fresh water withdrawal intensity reduced by 6.2% yoy in 2016

UNGC principles embedded in our policies

^{iv} Indicators under EY audit – might suffer modifications.

analysis and cooperation with a large number of dialogue partners. Together with management, amiable solutions for improving the organizational climate were established, leading to systemic changes. A strategy for reduction of litigations was implemented in order to reduce the number of files and claimants involved in labor litigations against the company. Furthermore, the "PetrOmbudsman Ambassadors Project" was implemented in order to support the program and also to increase its visibility within the organization. A pilot project for fillings stations was developed in 2016, in which PetrOmbudsman extended its scope of work from own employees, to those employed by the OMV and Petrom filling stations within the country. The project is intended to continue in 2017.

3. Diversity and employee development

As OMV Petrom's workforce is made up of more than 36 different nationalities, diversity, inclusion and equal opportunities are high on the agenda at all organizational levels. Diversity contributes to OMV Petrom being acknowledged as an employer of choice, and it aims to keep it that way. Achieving gender balance has always been a challenge in the industry OMV Petrom operates. By the end of 2016, the proportion of women across the OMV Petrom Group increased above 25% (thereof 31% in management positions), which is better than the industry benchmarks. More details on women's advancement can be found in the Corporate Governance Report, part of the current Annual Report.

With an increasing employee average age (reaching 47 in 2016, thus increasing by 1.5 - 2 years in the last 5 years), our company is focused on providing knowledge transfer programs and ensuring succession for critical (technical) positions. OMV Petrom also aims to attract the best students and offer them the opportunity to complete formal education by attending practical activities, specific to a certain business area. Open4U is the company's very successful internship program, through which, in 2016, OMV Petrom hosted 31 students who undertook two-month paid internships.

4. Business ethics and compliance

Trust and integrity form the basis for all the company's activities and OMV Petrom strives for a culture of ethics and responsibility. All OMV Petrom employees, as well as its contractors and other business partners, are expected to demonstrate honesty, transparency and integrity in their business dealings. OMV Petrom's code of business ethics includes, amongst others, clear rules on conflicts of interest, as well as gifts and hospitality. Every year, the company delivers comprehensive training on topics related to business ethics, antitrust, and insider trading. In 2016, around 700 employees were trained on business ethics, 250 on antitrust and 290 on insider trading matters. The company developed online training kits related to business ethics and insider trading which are available to all employees on the company's intranet. The company strengthened its compliance program, which combines training, guidelines, internal rules and expert advice. To enhance "tone from the top", high-level workshops on business ethics and compliance topics led by reputed external speakers were organized for the executive board and further cascaded to top management. Increased efforts were made to promote business ethics and compliance among suppliers by encouraging them to participate in internationally accepted evaluation procedures and thus getting a compliance certification.

5. Stakeholder engagement

Effective stakeholder management is crucial to company's success. OMV Petrom identifies the stakeholders which influence or are influenced by the company's activities and engages in dialogue with them to discuss their needs and perspectives.

In 2016, OMV Petrom continued its transparent and open-minded dialogue with its local stakeholders by strengthening the 11 community based organizations created starting with 2008. These 11 local NGOs which are active in several counties in Romania (Oradea – Suplacu and Marghita; Gorj – Bustuchin; Olt – Poboru; Teleorman – Talpa, Poeni, Siliștea; Dâmbovița – Mănești; Prahova – Băicoi, Telega, Boldești; Bacău – Moinești and Zemeș; Galați –

Gender diversity better than industry benchmark

Schela; Dolj – Işalnița) are annually stimulated to grow their skills and potential by attending a projects competition having as final result local community development activities such as:

- ▶ civic engagement and participation of community members in local councils decisions, increasing volunteering in their community (Galați/Schela);
- ▶ improvement of education quality and diminishing school abandonment via “school-after-school” programs (Teleorman/Talpa);
- ▶ raise employability opportunities by stimulating local economic potential and improving people’s technical skills through certified trainings (Bacău/Zemeș);
- ▶ support youth involvement in local development through associations or initiative groups, public speaking programs etc. (Bacău/Moinești, Gorj/Bustuchin, Prahova/Băicoi).

Overall, more than 1,000 beneficiaries were supported in creating pro-active tools for their communities’ development, as OMV Petrom has always aimed for being a social partner for its stakeholders.

Education remains one of the important topics for the sustainability goals of the company. “**România Meseriașă**” has as main goal to put the topic of vocational education on the public agenda and find solutions for improving the education of future craftsmen. In order to fulfil these goals, OMV Petrom continued in 2016 to actively engage different stakeholders (NGOs, Ministry of Education and Ministry of Labor representatives, education experts, teachers, companies’ representatives) in a large debate on systemic change of the vocational education system.

In 2016, we also aimed to engage stakeholders at the national level through “**Ideas from Andrei’s Country**”, a grant competition where OMV Petrom supports the sustainable development of communities in Romania. More than 170 projects entered the competition in 2016, grants EUR 150,000 being offered for 13 projects selected as winners. Eight projects aimed to develop vocational education by equipping laboratories, training teachers and

providing practice hours for future graduates, while the other five aimed to manage environmental problems through greening, use of non-polluting transportation, selective collection and recycling.

A very important category of stakeholders for OMV Petrom is represented by **suppliers**. Together with Global Compact Romanian Network, OMV Petrom organized at its headquarters the event “OMV Petrom Sustaining Partnership” with 57 key supplier representatives. The subjects were focused on risks, human rights impacts associated with the activities of businesses and the way to turn the sustainable development global goals (SDG) into local business.

OMV Petrom has been playing a significant role in strengthening the intervention capabilities of **authorities** in emergency situations. To this respect, a modern air medical helicopter base was set up in Constanța in 2016. This was possible due to the strong partnership between OMV Petrom, Mobile Emergency Service for Resuscitation and Extrication, Water Sewage Autonomous Administration, Public Health Authority, and ExxonMobil.

In 2016, more than 1,900 OMV Petrom **employees** continued to be key stakeholders in rolling out the sustainability activity by volunteering activities, by supporting civil society, and redirecting 2% of their income tax to 220 NGOs.

The **grievance management system** proactively monitors received and solved grievances from the company’s stakeholders. The system is an important compliance tool of the company since it helps management to identify noncompliance risks and mitigate them by adopting corrective measures in due time. The number of grievances received in 2016 decreased by almost 30% as compared to 2015.

More detailed information about OMV Petrom’s 2016 sustainability performance will be available in the company’s Sustainability Report which will be published in the second part of 2017.

Event organized for suppliers together with Global Compact Romanian Network

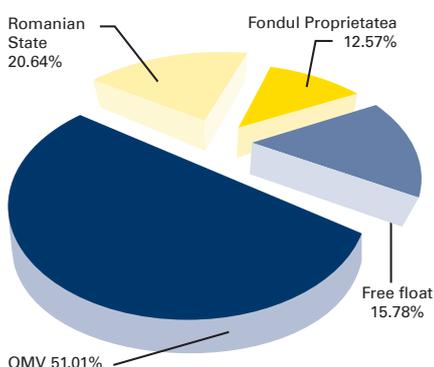
Grievances reduced by 30% yoy

OMV Petrom shares

87% of 15.8% free float held by institutional investors

Shareholder structure

As of the end of 2016, OMV Petrom S.A. had the following shareholding structure: 51.01% - OMV Aktiengesellschaft, 20.64% - Romanian State (via the Ministry of Energy), 12.57% - Fondul Proprietatea S.A. In October 2016, Fondul Proprietatea sold of a 6.4% stake in OMV Petrom S.A., through a Secondary Public Offering (SPO) of shares and GDRs, as already detailed in the relevant Highlights section. The remaining 15.78% represents the free float, traded as shares within the Premium category of the Bucharest Stock Exchange (BSE) and as GDRs within the Standard category on the main market of the London Stock Exchange (LSE). As of the end of 2016, around 520 legal entities from both Romania and abroad held approximately 13.8% of the free float shares, with the remainder (2%) was held by almost 456,600 private individuals.



Shares

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

In the first trading day of 2016 (4th of January), OMV Petrom S.A. share price reached the maximum annual level of RON 0.2915. Afterwards, the stock entered a downward trend (mirroring the oil price), with the minimum for the year of RON 0.2155 being reached on February 12 (while the Brent oil quotation reached its minimum of USD 26/bbl on January 20).

Until end September 2016, the share price fluctuated in line with the oil market trends.

Share price between RON 0.22 and 0.29

A 2% increase was recorded on September 21, when OMV Petrom issued clarifications related to the shareholder return for 2016. The announcement by Fondul Proprietatea (FP) to sell a 6.4% stake on September 23 and the announcement of the deal pricing on October 13 led to share price declines of ca. 4% in each of the respective days, partly recovered on the days when the shares and GDRs were settled within the SPO.

Towards the end of 2016, an upward trend started for OMV Petrom S.A. share price, largely attributable to the OPEC announcement on the agreement to cut oil production.

Overall, OMV Petrom S.A. share price went down by 10% on a full-year basis. Nevertheless, at the end of the year, the share price was up by 24% compared to the SPO price of RON 0.21. OMV Petrom S.A. market capitalization at the end of 2016 stood at RON 14.8 bn (EUR 3.3 bn), accounting for 10% of the total market capitalization of the companies listed on the BSE and for 16% of the capitalization of the BET index (representing the ten most liquid blue chip stocks listed on the BSE).

On the regular market of the Bucharest Stock Exchange, the average daily volume with OMV Petrom S.A. shares was 5.5 mn in 2016, 56% higher yoy. Also 39 deal trades with 486 mn OMV Petrom S.A. shares were concluded in 2016 (or 12.5 mn shares on average), of which 167.2 mn shares were traded in the period between the SPO settlement days and the first day of the LSE listing.

In terms of domestic indices development, 2016 was a better year than 2015. Moreover, OMV Petrom was partly responsible for the positive evolution of the BET index in December. Helped by the 14% increase in the OMV Petrom S.A. share price, the BET index was up by 3.7% only in December, closing the year positively with a 1.2% increase. The BET-NG index (comprising stocks in the energy and utilities sectors) in which OMV Petrom S.A. has a 30% share, decreased by 3%. The BET-BK index (designed as a benchmark for asset managers and institutional investors) grew by 0.2% over the same period.

OMV Petrom S.A. share symbols

ISIN	ROSNPPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNPBX

At a glance

	2014	2015	2016
Number of shares (mn)	56,644.1	56,644.1	56,644.1
Market capitalization (RON mn) ¹	23,111	16,427	14,784
Market capitalization (EUR mn) ¹	5,156	3,627	3,256
Year's high (RON)	0.4900	0.4025	0.2915
Year's low (RON)	0.3700	0.2895	0.2155
Year end (RON)	0.4080	0.2900	0.2610
EPS (RON/share)	0.0371	(0.0119)	0.0184
Dividend per share (RON)	0.0112	0	0.015 ²
Dividend yield ¹	2.7%	0	5.7% ²
Payout ratio ³	30%	0	81% ²

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 25, 2017

³ Computed based on the Group's 2016 net profit attributable to stockholders' of the parent

Global Depository Receipts (GDR)

OMV Petrom S.A. GDRs had their debut on the London Stock Exchange on October 20, 2016, following the sale by FP of a 6.4% stake, through a SPO of shares and GDRs, in which each GDR represents 150 shares. A volume of 2,492,328 GDRs were issued against deposit of 373,849,200 OMV Petrom S.A. ordinary shares with Citibank Europe plc, Dublin – Romania Branch, as custodian, for Citibank N.A., which is the depository bank.

On October 20, the GDR closed at USD 8.4. In the last trading day of the year, the GDR closed at USD 9.14, representing an overall increase of 8.8%. Compared to the SPO price of USD 7.7/ GDR, OMV Petrom S.A. GDRs appreciated by 18.7%.

As at end-December 2016, there were 1,756,419 GDRs outstanding.

During Oct 20 - Dec 31, 2016, a number of 939,374 GDRs was traded (around USD 7.8 million), translating into a daily average of around 19,000 GDRs (USD 0.16 mn).

On the international financial markets, the European and US indices had positive evolutions in 2016 compared with 2015: the DAX went up by 7%, FTSE 100 rose by 14.4%, Dow Jones Industrial average increased by 13.4% while the FTSE Global Energy Index, comprising the world's largest oil and gas companies, jumped by 23.1%.

**OMV Petrom
GDRs traded
on LSE since
October 20**

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 2016, OMV Petrom S.A. held a total number of 204,776 own shares, representing 0.0003% of issued share capital. In 2016, OMV Petrom did not buy back or cancel any of its own shares.

Investor Relations activities

Throughout 2016, the company's top management and the Investor Relations (IR) team had an increased presence on the local and foreign capital markets, partly as a result of the SPO followed by the LSE listing of OMV Petrom S.A. GDRs. Contact was maintained throughout the year by regularly organizing meetings and conference calls with both local and foreign institutional investors and analysts. The company organized four live presentations of its quarterly financial and operating results, made available through audio webcasts and conference calls. These events attracted 77 investors and analysts from financial institutions and equity funds, approx. 9% of them actively participating by addressing questions.

Additionally, the company attended four analyst and investor conferences in London, New York, Bucharest and Prague, as well as two non-deal roadshows in London and Stockholm, after the publication of the FY 2015 and H1/16 results.

The most significant event of the year was the deal roadshow in relation to the SPO via which FP sold a 6.4% stake in OMV Petrom S.A.. The SPO was followed by the listing of OMV Petrom S.A. GDRs on the London Stock Exchange). During the roadshow that took place between 6 and 13 October 2016, our top management and IR team had 47 meetings with 67 investors from Warsaw, London, Bucharest, Tallinn, Boston, New York and Stegersbach (Austria).

A retail investors' event was also organized at our headquarters in 2016, during which around 30 retail investors had the opportunity to meet

OMV Petrom's CEO.

All these events maintained a high level of accessibility for analysts and investors, who had the opportunity to address questions directly to the company's top management team as well as to the IR representatives, and discuss the company's reported results and its strategic directions. About 145 one-to-one or group meetings were held in 2016 during all these events, as well as around 45 conference calls. The research coverage by sell side analysts has improved. OMV Petrom stock is covered by eight analysts. The quality of coverage improved as most analysts provided more regular reports, Goldman Sachs initiated coverage and UniCredit resumed coverage.

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 on the company's website www.omvpetrom.com, in the Investor Relations section.

Dividends

The Supervisory Board has accepted the Executive Board's proposal to the Ordinary GMS to distribute a gross dividend per share of RON 0.015 for the year 2016. This translates into a total cash outflow of around RON 850 mn, a payout ratio of 81% of the Group's 2016 net profit attributable to stockholders of the parent or 55% of Group's 2016 free cash flow, which is in line with the current Dividend Policy and principles of shareholders return for 2016 communicated to the markets in September 2016. The proposal is subject to the approval of the forthcoming Ordinary GMS on April 25, 2017.

**IR activity
boosted by SPO**

Business environment

Global macroeconomic and sector trends

The **world economy** grew by an estimated 3.1% in 2016, marginally lower than a year before. Since the start of the economic crisis back in 2009, global GDP growth remained subdued, impacted by significant uncertainties over changes in the international policy environment, unconventional monetary policy and debt overhang. The downturn in both private and public investments in major economies extended into 2016, contributing to a sustained slowdown in global trade. Commodity-exporting economies in particular further curtailed their public investment in infrastructure and social services, in response to sustained revenue losses. The US economy advanced by 1.6% in 2016, supported primarily by consumer spending. Despite the fact that policy changes under the new Trump administration are ongoing, confidence surveys released after the US elections suggest an upbeat near-term outlook, supported by an increased consumer purchasing power. Economic growth in Japan remained modest at 0.9%, while the Chinese economy appeared to have stabilized, growing by 6.7%, supported by a continued policy stimulus. Activity was weaker than expected in Argentina and Brazil, while Turkey's political uncertainty rose following July's failed coup attempt, leading to a sharp contraction in its tourism revenues. The UK economy defied expectations of a slowdown after it had voted to leave the EU, advancing by 1.8%. In the Eurozone, domestic demand showed some signs of revival in the second part of the year. The Euro area economy grew by 1.7% in 2016, aided by a continuation of the expansive monetary policy stance.

Consumer price inflation in advanced economies rose to 0.7% in 2016, as loose monetary policy in major global economies has finally started to have an impact. But inflation growth remains subdued in most economies, below pre-crisis levels. The divergence of monetary policy between the US and Euro area deepened as interest rates in the US rose by a further 25 basis points to 0.75%. This triggered an increase in bond yields, notably in the US, signaling the start of a tightening financial conditions cycle.

In 2016, total **global oil demand** is envisaged to have risen by 1.6% to 96.5 mn bbl/d compared to 2015. The implied rate of growth of 1.6 mn bbl/d would thus be well above the five-year average of 1.3 mn bbl/d recorded between 2011 and 2015. Oil demand grew across all world regions, with Asia/Pacific advancing by 2.8%. In Europe, demand was up by 2%, supported by strong industrial demand and cold weather conditions. Chinese oil demand was also robust, increasing by 3.5% to 11.9 mn bbl/d, driven partially by the strength of the petrochemical sector. **Global oil supply** stood at 96.9 mn bbl/d, up only marginally, by 0.3 mn bbl/d, compared to 2015. Non-OPEC producers reduced their output to 57.6 mn bbl/d, an annual drop of 1.4%, as falling oil prices impacted their production. In contrast, OPEC's strong supply during 2016 helped push the cartel's surplus crude oil production capacity to 1.26 mn bbl/d, the lowest level in a decade. A coordinated action between OPEC and other 11 non-OPEC producers, led by Russia, was concluded by an agreement at the end of November to cap oil supply. The deal marked OPEC's return to market management with the aim of speeding up the oil market's return to balance by working off its excess.

In 2016, the average Brent price fell for the fourth year in a row, to USD 43.7/bbl, 17% lower compared to its 2015 average level. Oil prices dropped at the beginning of the year as both Russia and Saudi Arabia increased their production, but started to recover later in the year as oil demand increased and the details of OPEC's agreement to curtail production started to emerge. The gap between Brent and Urals oil prices widened in 2016 to USD 1.6/bbl, from USD 0.9 bbl a year earlier. In 2016, the average Urals price was USD 42.1/bbl, 18% lower compared to 2015.

Romania – macroeconomic and sector trends

Preliminary data released by the National Institute of Statistics showed that **Romania's economy** grew by 4.8% in 2016, one of the highest rates in the European Union. The improved economic performance largely reflected domestic factors, including the fall in the VAT rate, from 24% to 20%, which, in turn, triggered a strong revival in private

Oil price volatile in 2016

Romania's GDP grew by 4.8%

consumption. But the accelerating increase in households' purchasing power also played an essential part in driving up consumption. Real average wages in the economy advanced by 14.5% in 2016, as public and minimum wage increases triggered a chain reaction on the pay scale. The consumer confidence indicator improved gradually over the year, reaching levels last seen prior to the crisis, at the end of 2008.

Increased household consumption led to a widening of the **trade balance deficit** to around 1% of GDP, as demand for imported goods went up. The net trade balance for services recorded a surplus of 4.5% of GDP allowing the country to consolidate its net services exporter position, mainly due to the substantial contribution of transport activities. Overall, the **current account deficit** more than doubled compared to a year ago, surpassing EUR 4 bn, the equivalent of 2.4% of GDP. Industry performance was more muted compared to last years, growing by a lackluster 1.7%. The manufacturing sector was once again the main driver of the industry growth, increasing by 2.6%, while mining and quarrying dropped by almost 16%. Construction had another dismal year, with the volume of activity falling by 4.8% compared to 2015. Despite all this, the attractiveness of the Romanian economy improved. **Foreign direct investment** amounted to over EUR 4 bn, an annual increase of 38%. Almost the entire amount represented contributions to the capital of foreign entities present in Romania.

Current account deficit more than doubled yoy

Government deficit kept under control

In 2016, the **government budget deficit** stood at 2.4% of GDP, as a cautious approach to public spending by the transition technocrat government managed to keep the deficit under control. But, given the constraints on maintaining the deficit under control, the political push to increase both minimum and public sector wages in a year with local and Parliamentary elections led to lower public sector investments. These amounted to a meagre EUR 6.5 bn, or the equivalent of 3.9% of GDP, the lowest amount in years. Total realized government revenues were more than

3% lower than the budgeted figure, mainly due to weaker VAT and excises revenues.

Labor market conditions continued to tighten in 2016 as the economic growth accelerated. The economy created new jobs almost every month during 2016, pushing up employment to its pre-crisis level. Consequently, the **unemployment rate** followed a downward trend, reaching 5.5% at the end of the year.

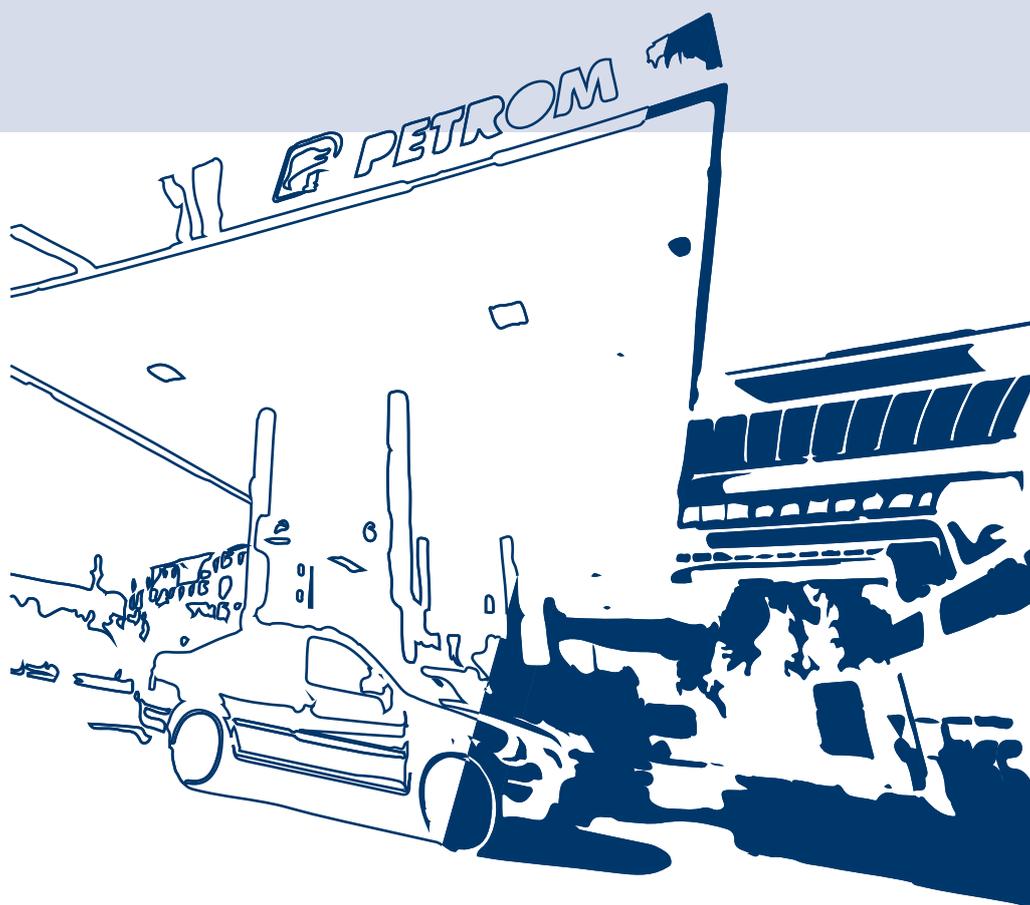
Annual harmonized average consumer price inflation (HCPI) was (1.1)% in 2016 as the four percentage points VAT reduction pushed down domestic prices. The fall in energy prices at the beginning of last year was another factor which contributed to maintaining inflation in negative territory. **Monetary policy** remained unchanged in 2016 with the benchmark interest rate set at 1.75%.

Volatility in the **RON/EUR exchange rate** was slightly more elevated compared to 2015, but remained low from a recent historical perspective. In 2016, the RON depreciated against both the EUR and the USD, by 1.1% and 1.3% respectively.

Romania's total **energy supply** rose slightly in 2016 by 0.8%, to 33.2 mn toe, as the strength of the economy demanded more resources. Overall, total energy imports rose by almost 17%, with natural gas imports going up by over 1 mn toe, seven times more than last year. Domestic oil production fell by 4.3%, leading to a rise in imports of 0.9 mn toe, an annual increase of more than 13%.

Business segments

- 32 Upstream
- 38 Downstream Oil
- 41 Downstream Gas



Upstream

The Upstream business explores for and extracts oil and natural gas in Romania and Kazakhstan. In Romania, OMV Petrom accounts for almost the entire crude oil production and for approximately half of the gas production.



Peter Zeilinger, Executive Board member responsible for Upstream: “2016 has been a roller-coaster in terms of oil price volatility leading to frequent adjustments mitigating the financial impact. Our focus was on safeguarding profitability and generating cash flow through smart and sustainable cost optimization initiatives. We thus managed to achieve substantial OPEX savings through strict cost discipline. At the same time, we remained fully committed to people and their safety - the LTIR of 0.3 in Upstream stayed in line with international benchmark.

Following a prioritization of investments, we managed to contain the production decline to around 2.5% yoy, partly offsetting the natural reservoir depletion and the impact of the surface facilities upgrade at Totea Deep. At the same time, we have laid the foundation to reduce complexity and to increase efficiency through divestment of marginal fields and the re-negotiation of two of our Production Enhancement Contracts.

Considering the low price environment which requires a paradigm shift from volume to value, our efforts in 2016 were concentrated on developing strategic options to maximize the portfolio value and ensure reserve base sustainability. Achieving full potential from focused Romanian asset portfolio and growing current asset base to achieve long-term sustainability are the two strategic thrusts for Upstream business.”

At a glance

	2014	2015	2016
Segment sales (RON mn) ¹	12,889	8,979	7,303
EBIT (RON mn) ²	3,932	(1,815)	401
Clean EBIT (RON mn)	4,667	919	575
EBITD (RON mn)	7,201	4,099	3,094
Capital expenditures (RON mn)	5,349	3,486	2,119
Total Group production (mn boe)	65.82	65.19	63.74
thereof in Romania	62.57	61.90	60.66
Proved reserves as of December 31 (mn boe)	690	647	606
thereof in Romania	671	625	582

¹ Including inter-segment sales

² Excluding intersegmental profit elimination

LTIR kept in line with international benchmarks

HSSE is Upstream's first priority

The overall HSSE focus was further strengthened in 2016 and additional improvement measures are being implemented. The Lost-Time Injury Rate (LTIR) in Upstream was 0.30, in line with the international benchmark. The fatality rate has been reduced by 90% between 2008 and 2016; tragically though, we recorded one work related fatality in 2016.

Financial performance

Upstream **Clean EBIT** came in 37% lower compared to 2015, at RON 575 mn, driven by lower prices and hydrocarbon volumes, which more than offset lower exploration expenses, production costs, depreciation and royalties. In addition, the oil price hedges for the period Q4/15 through Q2/16 were monetized in 2015 and together with the oil price hedges for Q3/15 improved the 2015 clean EBIT by RON 101 mn.

Exploration expenses decreased to RON 262 mn in 2016 (2015: RON 577 mn), mainly due to reduced activity at the Neptun block. The average Group realized crude price was USD 35.58/bbl, 21% lower than in 2015. Group production costs stood at USD 11.85/boe, 10% lower than in 2015, mainly due to efforts made to simplify and adjust our organization, favorable FX rates, lower services, personnel and material costs, partly offset by lower production available for sale. Production costs in Romania expressed in USD/boe were USD 11.69/boe, down 9% versus 2015, while in RON terms they decreased to RON 47.44/boe (2015: RON 51.23/boe), mostly due to lower services, personnel and materials costs.

Reported EBIT in 2016 amounted to RON 401 mn, impacted by special charges related to personnel restructuring, write-offs of exploration assets and the reassessment of receivables, while 2015 was influenced mostly by impairments of production assets in Romania and Kazakhstan, totaling RON 2.7 bn.

Upstream capital expenditures decreased by 39% compared to 2015, to RON 2,119 mn and represented 82% of total Group CAPEX for 2016. Upstream investments were focused on activities related to workovers and subsurface operations, finalizing field redevelopments, surface facilities, drilling development wells, as well as investments related to the Neptun Deep project. Exploration expenditures reached RON 338 mn, mainly due to finalized drilling activities in the Black Sea.

Reserve replacement rate (RRR)

As of December 31, 2016, the total **proved** oil and gas **reserves** in OMV Petrom Group's portfolio amounted to 606 mn boe (of which 582 mn boe in Romania), while the **proved and probable** oil and gas **reserves** amounted to 879 mn boe (of which 829 mn boe in Romania).

For the single year 2016, the Group's **reserve replacement rate** was 36% (2015: 33%), while in Romania it increased to 29% (2015: 25%). The Group's three-year average reserve replacement rate increased to 37% in 2016 (2015: 35%), while in Romania it stood at 32% (2015: 33%).

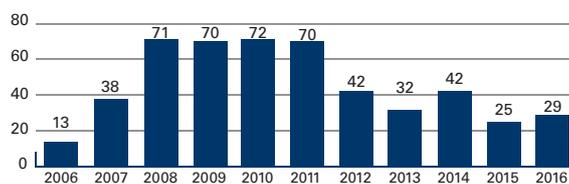
OMV Petrom Group was able to keep its reserve replacement rate around 36% in the last three years mainly thanks to continuous reservoir studies performed, supported by drilling

programs, diversification of recovery techniques and new extensions of existing fields.

A reserves audit was performed by De Golyer & Mac Naughton for the 2015 reported figures. The report was finalized mid-2016 and the auditor's estimates were in material agreement with OMV Petrom's 2015 reserves assessment.

**Production costs
10% lower vs.
2015**

Reserve replacement rate in Romania (%)



Romanian Upstream operations

Exploration

2016, the second year of the current exploration phase, was challenging given the persistent low oil price environment. As a result, OMV Petrom revised its exploration programs according to the Group's strategic directions.

Activities were concentrated on the integration and interpretation of 3D seismic data, acquired in previous years, in order to identify new drilling opportunities.

During the year, the following three exploration wells were finalized, out of which two with OMV Petrom as operator:

- ▶ **Well 2500 Preajba**, within block IX Bucharest: having a projected depth of 2,500 m, the well reached the designed geological objective at a depth of 2,725 m, without encountering hydrocarbons; thus, the well will be transformed in a residual injection well for Preajba field, being a relevant example of synergies between development and production activity;
- ▶ **Well 1 Mercury** – offshore, with a targeted depth of 1,104 m within block XVIII Istria, the well was designed using a new concept. The well reached its geological objective, without indication of hydrocarbons, being plugged and abandoned;
- ▶ **Well 1 Largu** (50% Hunt Oil - operator; 50% OMV Petrom) had a designed depth of 2,530 m, having the Cretacic (Albian) layers as objectives. At the realized depth of 2,470 m, the

**Group 2016 RRR
at 36%**

Experimental production at Padina 1 well started

well encountered non-commercial indication of hydrocarbons, being abandoned in the open well section and put into conservation in the casing area in case a future transformation into residual injection is considered.

Only two years after the initial discovery, construction of surface infrastructure was completed, and **experimental production at well Padina 1 was started**. The total investments made together with our partner Hunt Oil between 2014 and 2016 for the Padina North 1 project amounted to approximately EUR 17 mn. With average gross gas and condensate production stabilized at approx. 1,900 boe/day (100%), in line with initial estimates, the Padina North 1 well currently ranks among the top wells in OMV Petrom's portfolio.

2016 also marked the finalization of the exploration drilling program for the current exploration phase in the **Neptun Deep block**. A total of 7 exploration and appraisal wells were drilled between July 2014 and January 2016 in the second exploration campaign, most of them encountering hydrocarbons. Further details were presented in the relevant Highlights section. During 2016, the Titleholders applied to NAMR for the relinquishment of the Midia Deep concession agreement, which was approved at the beginning of 2017.

Finalized exploration drilling in Neptun Deep

Production

In 2016, OMV Petrom operated 232 commercial oil and gas fields in Romania, from which a combined daily average volume of 165.8 kboe/d was produced compared to 169.6 kboe/d in 2015. OMV Petrom produced in Romania 3.66 mn t of crude oil including condensate and 5.25 bcm of natural gas, the equivalent of 60.66 mn boe total oil and gas. Offshore production accounted for approximately 8% of oil production and 26% of natural gas production from total production in Romania. An important event was the finalization of the offshore gas compression project (Lebăda Est NAG). The biggest gas field, Totea Deep, reached plateau production during the year, cumulative annual output being impacted by the planned shut down for the upgrade of the facilities in September-October 2016. Crude oil production obtained using enhanced oil recovery techniques accounted for approximately 21% of total domestic oil production. Heavy oil, representing crude oil with density greater than 900 kg/m³, accounted for more than 35% of total production of crude oil including condensate. In 2016, the average crude oil production was 72.0 kboe/d, compared to 75.1 kboe/d in 2015. Domestic gas production was 93.8 kboe/d, below the level of 94.5 kboe/d achieved in 2015.

OMV Petrom's exploration, development and production concessions in Romania



The internal gas consumption for upstream operations accounted for approximately 12.3% of total gas production.

A very successful workover campaign partially compensated the natural production decline. The drilling activity was reduced compared to previous years, owing to the still low oil price environment and outlook at the beginning of the year.

On October 17, 2016, OMV Petrom and Mazarine Energy Romania announced the agreement on the transfer of 19 onshore oil fields. The transfer of the licenses is being undertaken according to all rights and obligations arising from the Petroleum Law and other related regulations. The transfer is subject to approval by the relevant authorities and is expected to be closed in the first half of 2017.

Key projects

In the challenging environment created by low oil prices, the drilling program continued in 2016, with 35 new wells and sidetracks conducted with OMV Petrom as operator, of which two were exploration wells (one onshore and one shallow offshore). The wells portfolio was diversified, covering new wells and sidetracks for oil and gas as well as injection wells.

In recent years, OMV Petrom has aimed to unlock production growth in Romania through investments in Field Redevelopment Projects (FRDs). These integrated projects aim to maximize the respective fields' ultimate recovery factor or to accelerate production of already proved reserves. This is achieved through enhanced oil recovery extraction processes like water injection, steam injection, additional infill drilling or workovers, alongside further modernization of our operations.

In particular, water injection is a top priority to maintain reservoir pressure and increase hydrocarbon recovery. Our recovery enhancement program in Romania covers 51 fields, out of which 4 are FRDs (Oprişeneşti, Vaţa, Slătioarele and Tazlău). For example, FRD Tazlău Kliwa 1 is a pilot project, which aims to increase oil recovery in the Tazlău area, in the layer with the most potential, using pattern water injection. As a reaction to low oil prices, investments in the Upstream business segment were carefully scrutinized and priority was given on finalizing

FRDs in development phases. During 2016, our efforts led to significant progress towards finalization of 4 FRD projects (Istria Phase 1, Istria Phase 2, Vaţa Phase 1 and Tazlău Kliwa 1), while 7 FRD projects were in development phase and 3 FRD projects in appraisal phase.

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

► FRD Phoenix Vaţa Phase 1

By the end of 2016, the project was put into operation and the execution phase consisted of 26 new wells, a central production facility, a water treatment plant, five kilometers of gas pipeline and three clusters with high-pressure injection skids.

The FRD Vaţa Phase 1 project underlines the importance and the potential of integrated redevelopment projects for OMV Petrom. Additional opportunities are currently being further evaluated and matured in this area.

► FRD Independenţa

Independenţa is a mature oil field that has been in production since 1959 and remains one of the most important fields in the OMV Petrom's portfolio. The purpose of FRD Independenţa is to increase oil production by drilling in previously undeveloped areas with high potential of oil accumulations. The project consists of drilling horizontal wells, construction and modernization of gathering and metering points as well as a tie-in pipeline. Currently, the project remains in execution phase with a total of 17 wells drilled, 3 metering point skids finalized and a six-inch pipeline in progress.

Based on the successful drilling of the horizontal wells planned for 2016, additional four wells (FRD Independenţa Upside wells) were identified by the project team and approved in July 2016. All four additional wells were drilled by the end of 2016. The project is planned to be finalized by end of 2017.

► FD Totea Deep

Totea Deep is the most important onshore gas discovery in Romania in recent years.

The full year average production in 2016 registered the second consecutive increase to 18.3 kboe/d, after the 2015 average of 15

Field Development / Redevelopment Program continued

2016 production from PECs at 7.3 kboe/d

kboe/d and 10.5 kboe/d in 2014. The final surface facilities setup was completed by the safety upgrade at Park 4540 Totea in October 2016. The period of production shut down due to construction activities was reduced from the initially estimated 30 days to just 5 days, by using the early production facilities concept, in parallel with the construction works in Park 4540. This enabled a production at 70% of the wells' potential during the upgrade. After debottlenecking and final upgrade, the design capacity of Park 4540 Totea has been increased by 50%.

► FRD Lebăda Est NAG

In Lebăda Est NAG, OMV Petrom aimed to reduce the natural decline of offshore gas production by upgrading the compression and ancillary facilities.

In 2015, the upgrades at Lebăda Est NAG progressed as planned and were commissioned with enhanced low pressure compression capacity and associated works on a package of high pressure compressors and flare modification. The first stage of execution was completed in November 2015. Finalising the remaining upgrades, which included the upgrade of the non-associated gas compression system, occurred in the second quarter of 2016. The project stands out in safety and cost performance terms and is planned to be completed in 2017.

► FRD Burcioaia and Safety Upgrade Mădulari

In the Mădulari safety upgrade project and FRD Burcioaia, we are enhancing gas processing using dehydration technologies. The scope for both projects includes flowlines to facility location, a gathering station, separation systems, an installation of compression, gas conditioning, and water handling. The goal of these facilities is to produce at minimum abandonment pressure while ensuring on spec gas deliveries. The majority of the construction works has been completed in 2016. Both projects entered into the testing and acceptance phase at year end 2016.

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 PECȚicleni, PECTurnu and PECTimiș, covering in total 26 mature fields. The PECs stipulate that the contractors will take over and finance the operations and, together with OMV Petrom, commit to the future developments of the fields that have been handed over, in order to maximize production while improving efficiency. OMV Petrom remains the sole titleholder of the concession contracts and the owner of the hydrocarbon production and of the existing assets, as well as of the rights and obligations under the relevant petroleum concession as defined by the Petroleum Act. In 2016, our operations in PECs and JVs achieved a very good safety performance, 2016 being the first year after inceptions without any LTI (compared to 2 LTIs in 2015).

The total annual **production** of PECs in 2016 was around 7.3 kboe/d, 9% lower compared to the annual production achieved in 2015. Overall production from PECs since inception to date is 2% above of the 12 months average production before the hand over of the operations to our PEC contractors. The production from PECs was split as follows: PECȚicleni 3.7 kboe/d, PECTurnu 1.4 kboe/d and PECTimiș 2.2 kboe/d (2015: PECȚicleni 3.7 kboe/d, PECTurnu 1.9 kboe/d and PECTimiș 2.5 kboe/d).

In **PECTimiș**, partners have optimized the production system and process flows, which led to significant reduction of CO₂ emissions. GHG intensity decreased by 49% and freshwater withdrawal intensity by 51% compared to 2015. In addition, the financial terms were negotiated with Expert Petroleum, improving the economics for OMV Petrom.

In **PECTurnu** a good performance was achieved in terms of cost reductions. The headcount decreased by 19% compared with the previous year, mainly due to optimization measures. In February 2016, PetroSantander decided to shut down the gas-lift system in Turnu East area, which led to a reduction in production of 0.3 kboe/d.

In **PECȚicleni** two new wells were completed and put into production, leading to an

incremental production of 0.2 kboe/d. From operational point of view, a slight increase in production was achieved and also a downsizing process is ongoing, that will have a significant impact on the headcount.

In 2016 a share purchase agreement was signed between Petrofac and Expert Petroleum for the transfer of 100% of the share capital of Petrofac in PEC Ticieni. The operations were taken over by Expert Petroleum starting September 1, 2016. In 2016, together with our partner Hunt Oil Romania, we have put in function the **Early Development Facility Padina**. The construction works were finalized in just seven months and the first experimental production has been achieved from the well Padina North 1 at the end of Q3/16.

Considering all the above, **the total production recorded by PECs and JVs in 2016 was 7.5 kboe/d** (8.0 kboe/d in 2015), 4.5% of the total OMV Petrom domestic production.

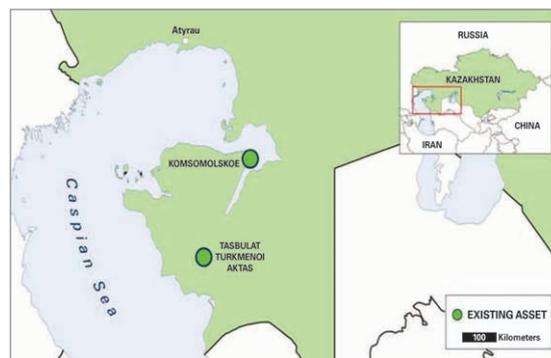
International Upstream operations

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 2016, the average oil and gas production in Kazakhstan was 8.4 kboe/d

(TOC: 3.9 kboe/d; KOM: 4.5 kboe/d) compared to 9.0 kboe/d in 2015. The unit production costs decreased by about 25% and our Kazach office achieved a positive free cash flow. Kom Munai LLP started to recover the historic VAT accumulated during the development of the Komsomolskoe field, this contributing to its improved financial position.

The replacement of the first half of the Turkmenoi pipeline has been completed. The Gas to Power project in TOC has been finalized, but it is yet to be commissioned. The water injection project in Komsomolskoe has been restarted.

Location of OMV Petrom fields in Kazakhstan



Unit production costs in Kazakhstan down 25% yoy

Production in 2016

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcm	mn boe	mn boe
Romania	3.66	26.34	5.25	34.32	60.66
Kazakhstan	0.36	2.81	0.05	0.27	3.07
OMV Petrom Group	4.02	29.15	5.29	34.59	63.74

Proved reserves as of December 31, 2016

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	45.8	329.6	1,360.7	252.0	581.6
Kazakhstan	2.8	21.9	15.1	2.5	24.5
OMV Petrom Group	48.6	351.5	1,375.9	254.5	606.1

Downstream

Downstream Oil

The Downstream Oil business segment's activities include processing and refining crude oil and delivering refined products to retail and wholesale customers. Along the value chain, the Downstream Oil segment operates the Petrobrazi refinery and has a retail network that consists of 783 filling stations in four Southeastern Europe countries, operated under two brands, Petrom and OMV.

Improved contribution to Group results



Neil Morgan, Executive Board member responsible for Downstream Oil: "In 2016, the Downstream Oil segment significantly contributed to Group results due to improved operational performance, better demand for oil products and increased cost efficiency, partly offsetting the decline in refining margins to still good levels. The refinery utilization rate stood at 89%, reflecting the mandatory turnaround, while fuel and losses were stable. Despite increased competition in our operating region, the Retail business contribution to the segment result increased, sustained by higher volumes sold and also by increased brand awareness and customer loyalty campaigns."

At a glance

	2014	2015	2016
Segment sales (RON mn) ¹	16,755	13,322	11,731
EBIT (RON mn) ²	(79)	1,230	1,289
Clean CCS EBIT (RON mn) ³	654	1,315	1,112
EBITD (RON mn)	541	1,841	1,917
Capital expenditure (RON mn)	794	393	440
Crude oil processed (kt) ⁴	3,728	3,926	3,945
Total refined product sales (kt)	4,807	5,028	4,932
thereof: Gasoline	1,297	1,343	1,297
Diesel	2,255	2,417	2,409
Kerosene/Jet fuel	245	254	251
HFO	390	298	282
thereof: Retail sales volumes (kt) ⁵	2,373	2,529	2,561

¹ Including inter-segment sales

² Excluding intersegmental profit elimination

³ Adjusted for exceptional, non-recurring items; clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS – effects) resulting from Downstream Oil

⁴ Including condensate; the annual refining capacity was updated from 4.2 mn t as of 2015; previously reported figures for 2014 were not adjusted accordingly

⁵ Retail sales volumes include sales via Group's filling stations in Romania, Bulgaria, Serbia and Moldova. Figures also reflected wholesales in Moldova until end-2015, when reporting changed; historical figures were not adjusted accordingly.

Financial performance

Clean CCS EBIT in Downstream Oil decreased to RON 1,112 mn compared to RON 1,315 mn in 2015, largely driven by lower refining margins despite improved cost management. The **indicator refining margin** decreased to USD 6.98/bbl, from USD 8.71/bbl in 2015, reflecting a challenging refining environment, with lower

product spreads despite lower cost for crude oil consumed. **Reported EBIT** came in at RON 1,289 mn reflecting **special items** of RON 58 mn as a gain, mainly related to the final Court decisions in Q1/16 to reduce the fines imposed by the Competition Council and the positive result of a legal dispute in Q3/16, which was partially offset by the reassessment of receivables in Q4/16 and

CCS inventory holding gains of RON 120 mn vs. RON (201) mn loss in 2015.

Investments in Downstream Oil amounted to RON 440 mn in 2016. Investments in the Petrobrazî refinery amounted to approx. RON 319 mn, relating mainly to the works associated with the planned refinery turnaround performed in Q2/16. Investments were also directed to efficiency and growth opportunities as well as to replacement, legal and environmental compliance projects. Investments in the Retail business were focused

on optimizing the current filling station portfolio, fulfilling legal requirements and delivering energy efficiency improvements.

Operational performance

In 2016, we continued to improve the operational performance and energy efficiency of the Petrobrazî refinery. The utilization rate was slightly higher than the 2015 level (89% in 2016 compared to 88% in 2015), supported by better domestic demand for petroleum products, despite the one-month planned turnaround of the refinery.

Improved operational performance and energy efficiency

Production (kt)	2014	2015	2016
Gasoline	1,143	1,262	1,222
Diesel	1,428	1,498	1,524
Kerosene/Jet fuel	207	190	171
HFO	309	193	219
LPG total	191	207	204
Petroleum coke	233	263	265

OMV Petrom Group's total refined product sales amounted to 4,932 kt in 2016, 2% lower compared to 2015, reflecting lower export sales and the fact that OMV Petrom had to prepare for an increased level of compulsory stock.

In 2016, the main focus was on maintaining market share in the **retail** business. Within the OMV brand filling stations, we concentrated on providing best-in-class fuels, products and services, as well as further diversifying the existing range of customer services (e.g. money transfer, car insurances, utilities payments, postal services), while in the Petrom brand filling stations, the main objective was to consolidate the brand positioning as 'Value for money' leader.

Group retail sales were 1% higher compared to 2015, reaching 2,561 kt, reflecting the positive trend on the domestic market. Until end-2015, Group retail sales volumes also included wholesale volumes from Moldova. On

a comparable basis, in 2016, Group retail sales volumes would have increased by 4% yoy. In Romania, retail sales reached 2,093 kt in 2016, 5% higher compared to 2015. Therefore, in 2016, the average throughput per station in Romania increased to 4.63 mn liters (2015: 4.45 mn liters), while at Group level it was 4.04 mn liters (2015: 4.01 mn liters).

Retail market share ^v in the operating region was 33%, broadly at the same level as in 2015, despite increased competition, reflecting improved efficiency and portfolio optimization. In 2016, the total non-oil business turnover increased by 14% compared to previous year, driven by improved performance and the benefits of the shop-in-shop ^{vi} concept as well as of other strategic partnerships. As a result of these measures, the non-oil business contribution to the retail turnover increased yoy by almost 2pp, sustained by increased purchasing power in Romania.

Stable retail market share

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

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

**Focus on
business-to-
business**

In the **non-retail** distribution channel, in 2016, OMV Petrom continued to optimize its operations in a challenging market environment with a focus on the business-to-business activities. In Romania, the multi-channel approach (using different channels to reach the customer target groups) was pursued to strengthen sustainable profitability. Group non-retail sales decreased to 2,371 kt, 5% below the 2015 level, reflecting increased market competition. In Romania, non-retail sales were 1,175 kt, 7% below the previous year's level.

With regards to OMV Petrom **fuel prices**, these have a dynamic evolution based on

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

In terms of the **filling stations network**, at the end of 2016, the total number of filling stations operated within OMV Petrom Group decreased by five units compared to 2015, as a result of network optimization.

Number of filling stations per country (at the end of the period)

	2014	2015	2016
Romania ¹	544	554	554
Republic of Moldova	86	84	78
Bulgaria	89	90	90
Serbia	61	60	61
Total ¹	780	788	783

¹ Starting 2015, the figures include the filling stations serving the commercial road transportation (4 in 2015, 3 in 2016). The volumes sold via these stations are accounted in total refined product sales and also are accounted in the retail sales volumes.

Downstream Gas

OMV Petrom has a strong position in the Romanian gas market, pursuing all gas sale channels. Since 2012, the equity gas value chain has been expanded by converting gas into electricity through the 860 MW Brazi gas-fired power plant. In addition, OMV Petrom owns the 45 MW Dorobanțu wind park, which is planned to be divested by the end of 2017.



Lăcrămioara Diaconu-Pințea, Executive Board member responsible for Downstream Gas:

“In 2016, the Downstream Gas segment made a positive contribution to the Group results, building on the good operational performance in both gas and power businesses. The gas market landscape was challenging, with unpredictable shifts in fundamentals and the arrival of new players. Still, we have succeeded to monetize all volumes available for sale - OMV Petrom’s gas production was the largest in Romania in 2016. Capitalizing on our integrated business model, we maintained our strong market position, strengthening existing gas sales channels, while making progress on building new ones. On the

power market, we have gained high value, benefitting from a good mix of spot and forward sales. Additionally, we made progress with our objectives to optimize the product portfolio and to improve customer orientation, to sustainably ensure value-generation.”

Good operational performance of both gas and power businesses

At a glance

	2014	2015	2016
Segment sales (RON mn) ¹	4,375	4,536	4,411
EBIT (RON mn) ²	(818)	(216)	3
Clean EBIT (RON mn)	(63)	(145)	11
EBITD (RON mn)	49	(4)	121
Capital expenditure (RON mn)	3	9	13
Gas sales volumes (TWh)	47.7	51.4	50.4
thereof to third parties (TWh)	44.3	45.2	43.9
Net electrical output (TWh)	1.3	2.7	2.9

¹ Including inter-segment sales

² Excluding intersegmental profit elimination

Financial performance

The Downstream Gas **Clean EBIT** was RON 11 mn in 2016 versus RON (145) mn in 2015, when it was impacted by RON (87) mn net provisions for outstanding receivables, whereas, in 2016, the net impact from provisions was favorable, at RON 13 mn. The gas business experienced persistent pressure on volumes and margins, while the power business contribution significantly improved, as a result of a good mix of spot and forward sales. The **reported EBIT** amounted to RON 3 mn in 2016, compared to the negative result of RON (216) mn in 2015,

when it reflected special items of RON (71) mn, mainly related to the reclassification of the wind park as an asset held for sale, in addition to the provisions for outstanding receivables.

Legislative and regulatory updates

The gas price liberalization for households made no progress throughout 2016, and remains at RON 60/MWh until the end of Q1/17. ANRE set no import quota for household consumers in 2016 (2015 quota: 1%). The obligation for domestic gas producers to sell a certain fraction of their gas production on the centralized

trading platforms continued to apply in 2016. This proved to be a challenge due to insufficient market liquidity throughout most of 2016, with some improvement towards the end of the year. As for the power market, the liberalization for household consumers and small enterprises progressed according to the official calendar. The quota of renewable energy sources in gross consumption as established by the Government was 12% (2015: 12%); however, the excess of green certificates on the market and, consequently, the low prices of certificates persisted throughout the year.

Operational performance

As per OMV Petrom's estimations, national **gas** consumption increased by around 3% to approximately 125 TWh (2015: 122 TWh), being characterized by high volatility and unpredictability, declining during the first half, but recovering during the last months of 2016. The market proved very competitive, mainly due to the increased import gas share in the supply mix (13% in 2016 vs. 2% in 2015).

Building on our existing strengths – the integrated gas and power business model and the solid customer portfolio – we managed to limit the gas sales volumes decline to 2% vs. 2015. The decline resulted from lower volumes available in storage at the beginning of 2016 (in accordance with the company's objective to minimize storage expenses). All gas sales channels were used, including the centralized markets, along with a diverse customer portfolio, ranging from large industrial players to small businesses, thus successfully helping us to maintain a leading position in a competitive market. In order to fulfill the legal obligation, a total volume of 3.9 TWh of natural gas was injected into storage (2015: 2.8 TWh). The storage level at the end of the year amounted to 2.5 TWh (2015: 1.9 TWh), thereof 0.6 TWh was already contracted for sale with delivery in Q1/17.

According to preliminary data available from the grid operator, national gross **electricity** production decreased by 2%, at 61 TWh (2015: 62 TWh), while national electricity consumption

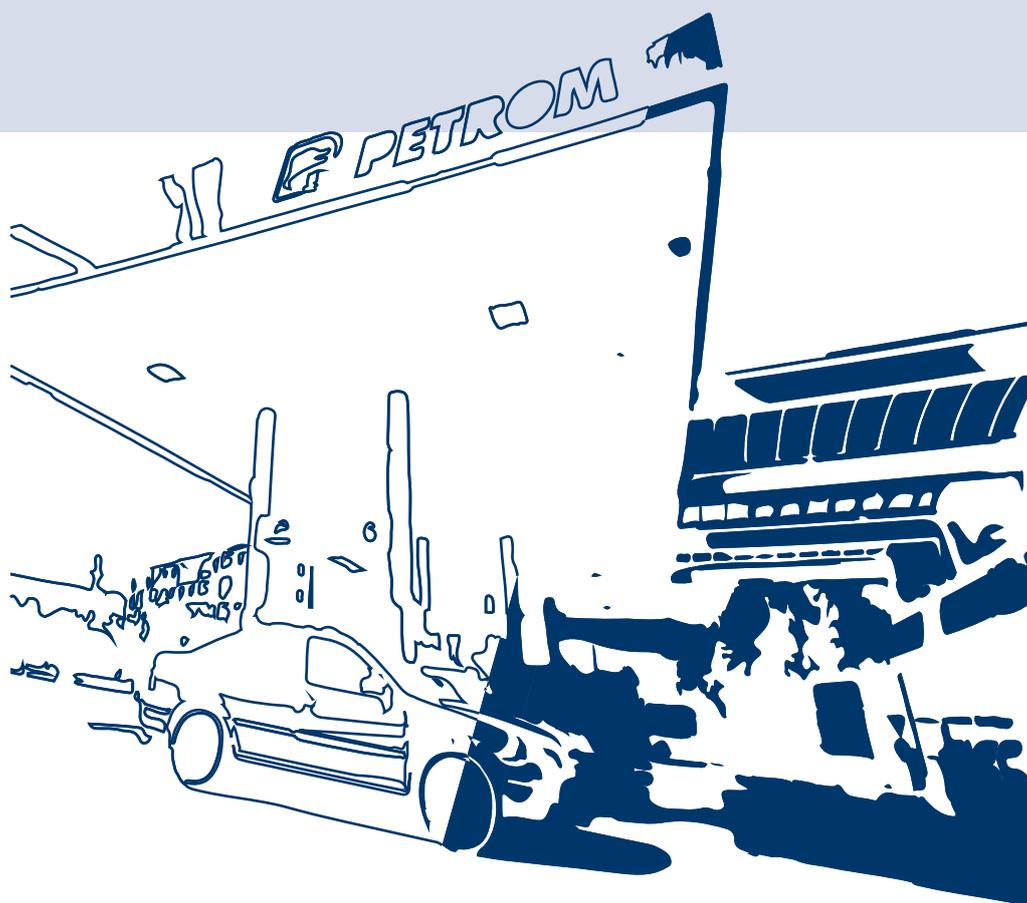
slightly increased, by 1%, to 56 TWh (2015: 55 TWh).

Targeting consolidation of our power activity, in 2016 we built a mixed portfolio of spot and forward power sales, which led to an increase in the net electrical output from the Brazi power plant to 2.8 TWh (2015: 2.6 TWh). Its full integration within the gas value chain played a key role, particularly in the summer time. Due to the unplanned outage of one of the plant's gas turbines, half of the production capacity was unavailable during Q4/16. In 2016, the Brazi power plant covered 5% of Romania's electricity production and 7% of the balancing market, contributing to the stability of the national power system. The Dorobanțu wind park generated a net electrical output of 0.08 TWh in 2016, stable versus 2015, receiving around 128,000 green certificates, half of them eligible for sale after January 1, 2018.

Gas sales volume decline contained to 2% yoy

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Report of the Supervisory Board

Transparency and accountability towards our shareholders is a well-established and deeply entrenched practice that has been put in place in the Company. Hence, the Supervisory Board continued to devote close attention to the strategic focus and business performance of the Company in all areas of activity during 2016.

The following report gives an overview with regard to the Supervisory Board's main points of interest during the year under review.

In addition to this report, the shareholders, as well as other stakeholders have various means to access relevant information about the Company and the Supervisory Board by:

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

Composition of the Supervisory Board

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started in 2013 and runs until April 28, 2017. The CVs of the current Supervisory Board members are available on the Company's corporate website and included also in the Corporate Governance Report.

At the beginning of 2016, the Supervisory Board consisted of the following members: Rainer Seele (President), David Charles Davies (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, Riccardo Puliti, George Băeșu, Bogdan - Nicolae Badea and Joseph Bernhard Mark

Mobius.

The Ordinary GMS held on April 26, 2016 appointed Dan Manolescu as member of the Supervisory Board until April 28, 2017, following the waiver of Bogdan-Nicolae Badea's mandate as member of the Supervisory Board. Starting August 1, 2016, Reinhard Florey succeeded David Charles Davies as interim member and Deputy President of the Supervisory Board following the waiver of his mandate. Later on, following Riccardo Puliti's waiver of his mandate as member of the Supervisory Board, Jochen Weise was appointed, as of November 1, 2016 and until the next GMS, as interim member of the Supervisory Board.

Therefore, at the end of 2016, the membership of the Supervisory Board comprised the following individuals: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, George Băeșu, Dan Manolescu, Joseph Bernhard Mark Mobius, and Jochen Weise.

As of January 1, 2017, following Christoph Trentini's waiver of his mandate as member of the Supervisory Board, Daniel Turnheim was appointed as member of the Supervisory Board until the next GMS.

Independence

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

Moreover, for the purpose of the preparation of this report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2016.

Following this evaluation, it resulted that the following Supervisory Board members met during 2016 all the independence criteria

Supervisory Board elections upcoming

provided by the Corporate Governance Code, namely:

- ▶ George Băeșu
- ▶ Dan Manolescu
- ▶ Riccardo Puliti
- ▶ Jochen Weise

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

Supervisory Board works

In 2016, 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 Board on important management matters, monitored the latter's work, and was involved in the Company's key decisions. Where required by the law or the Company's Articles of Association or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

During the year under review, the Supervisory Board members met five times in person. Moreover, for specific and particularly urgent matters and projects arising between the scheduled meetings, the Supervisory Board submitted its approval in writing on six 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 2016, the average participation rate being over 95%. Only on four occasions, some of the Supervisory Board members were represented by other Supervisory Board members in meetings.

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

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

Besides the usual items, proposals and materials that were discussed and submitted for approval of the Ordinary GMS in April 2016, Supervisory Board's main focus areas during 2016 were the review and update of the OMV Petrom Strategy for 2021+, which was released in February 2017, as well as the appointment, starting April 1, 2016, of a new member of the Executive Board in charge with Upstream activity, namely Peter Rudolf Zeilinger, following Gabriel Selischi's waiver of his mandate.

Likewise, the Supervisory Board was interested in ensuring better compliance with the Corporate Governance Code in terms of internal audit function and thus approved its transfer from the CFO to CEO Division starting October 1, 2016.

Also, in order to better meet shareholders' expectations, the Supervisory Board further detailed the OMV Petrom Dividend Policy with respect to 2016 financial year.

In terms of projects, during 2016, the Supervisory Board supported the implementation by the Executive Board of the secondary listing of OMV Petrom on the London Stock Exchange, with GDRs. Further details on this item could be found in the OMV Petrom Shares section.

In a year marked by unfavorable market conditions, the Company initiated less business investment projects. Out of these,

Additional details on Dividend Policy for 2016

only two required Supervisory Board approval in 2016, namely: the investment for a new unit to be built in the Petrobrazi refinery, based on innovative Polyfuels technology allowing the conversion of LPG components into gasoline and middle distillates, using a catalytic process, which is expected to become fully operational at the beginning of 2019 and the investment for installation of a Central Hydrocarbon Dewpointing unit in the Hurezani area.

Moreover, in all Supervisory Board meetings held in 2016, the Executive Board informed about the status of the process for the share capital increase of OMV Petrom by incorporating the value of plots of land received in administration and / or use from the Romanian State for which OMV Petrom obtained / is in the process to obtain the land ownership certificates, as well as about the constant dialog between the Company and the Romanian State via its authorized representative in order to clarify the pending issues. In addition, the President of the Executive Board has constantly informed the Supervisory Board of developments in the Company's business and significant transactions.

Supervisory Board self-evaluation

The Company has in place a Supervisory Board Self-Evaluation Guideline providing the purpose, criteria and frequency of such an evaluation. The aim of this process is to assess and if necessary to improve both the efficiency and the effectiveness of the Supervisory Board work, as well as to ensure that the Supervisory Board is capable of fulfilling its responsibilities towards shareholders and other stakeholders. Based on this Guideline, the Supervisory Board underwent a self-evaluation process for the business year 2016, under the leadership of the President of the Supervisory Board. The Supervisory Board members consider that the composition regarding the experience and qualification, diversity, number of members and also presence is satisfactory. Supervisory Board members also appreciated the good collaboration with the Executive

Board, the organization and conducting of the Supervisory Board meetings and the quality of the documents provided for and during the meetings.

Audit Committee

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

At the beginning of 2016, the Audit Committee was composed of Riccardo Puliti (President), David Charles Davies (Deputy President) and George Băeșu.

Following David Charles Davies's waiver of his mandate as Deputy President and member of the Audit Committee, the Supervisory Board approved the appointment of Reinhard Florey for these positions, starting August 1, 2016. Following Riccardo Puliti's waiver of his mandate as member and President of the Audit Committee, the Supervisory Board appointed Reinhard Florey as President of the Audit Committee, and Jochen Weise as member and Deputy President of the Audit Committee, starting November 1, 2016.

Therefore, at the end of 2016, as well as at the date of this report, the Audit Committee consisted of the following three members: Reinhard Florey (President), Jochen Weise (Deputy President - independent) and George Băeșu (Member - independent). The CVs of the current Audit Committee members are available on the Company's corporate website and included also in the Corporate Governance Report.

In 2016, the Audit Committee met three times, on which occasions it reviewed and prepared the adoption of the annual financial statements, endorsed the Executive Board proposal not to distribute dividends for the year 2015 and recommended to the Supervisory Board and to the GMS the reappointment of Ernst&Young (EY) as

SB appreciates the good collaboration with the EB in 2016

independent financial auditor.

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

Audit Committee concentrated its focus also on the effectiveness and scope of the internal audit function, on monitoring the application of statutory and generally accepted standards of internal auditing and evaluating the reports of the internal audit team, including the internal audit plan for 2017.

Likewise, it examined and reviewed related party transactions (especially those that exceed or that 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 2016. 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 25, 2017.

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

EY audited the 2016 financial statements, reviewed the conformity of the annual report

with the financial statements and issued an unqualified audit opinion.

The financial statements and audit reports for the year ended December 31, 2016, as well as the Executive Board proposal to distribute dividends of RON 0.015 per share (corresponding to a payout ratio of 81% based on the Group's 2016 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 approve 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, 2016 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 23, 2017 in line with the Audit Committee's recommendation and will further be submitted for approval in the Ordinary GMS to be held on April 25, 2017.

Furthermore, following the review by the Audit Committee, the Supervisory Board has reviewed and approved the consolidated report on payments to governments for the year 2016, prepared in accordance with Chapter 8 of the Annex 1 of 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 2016 Directors' Report which includes the Corporate Governance Report.

We thank our shareholders for their confidence in OMV Petrom. The Company

**81% dividend
payout ratio**

Confidence that the Company is best positioned for challenges ahead

continued its successful operational path of development in 2016 in spite of difficulties caused by the effects of the weak oil price environment.

To this end, the Supervisory Board would like to express their appreciation to the Executive Board, managers, employees and trade union representatives for their commitment and hard work. They successfully met the challenges of a demanding 2016 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 and unlock its full potential in the years to come.

Bucharest, March 23, 2017



Rainer Seele
President of the Supervisory Board

Consolidated Directors' report



Andreas Matje, Chief Financial Officer: "In 2016, we managed to strengthen the balance sheet and deliver a solid cash flow, supported by lower investments and a continued cost discipline, in spite of market volatility and a challenging environment. The Group's EBIT was positive compared with 2015, when it was impacted by impairments of some of the production assets in Upstream due to revisions of our oil price assumptions. Declining prices and refining margins impacted the Group's profitability in 2016, but the result was fairly resilient due to cost savings and improved contributions from all business segments showing the benefits of our integrated business model. Based on our results and strong free

cash flow achieved in 2016, we as Executive Board proposed and the Supervisory Board approved a gross DPS of RON 0.015, subject to the approval of GMS."

Strong free cash flow allowing for dividend payment proposal

OMV Petrom Group financials (RON mn)

	2015	2016	Δ(%)
Sales revenues	18,145	16,247	(10)
Earnings before interest and taxes (EBIT)	(530)	1,469	n.m.
Net income/ (loss)	(690)	1,038	n.m.
Net income/ (loss) attributable to stockholders	(676)	1,043	n.m.
Cash flow from operating activities	5,283	4,454	(16)
Capital expenditures	3,895	2,575	(34)
Employees at the end of period	16,038	14,769	(8)

In 2016, the Group reported consolidated **sales** of RON 16,247 mn, 10% lower compared to 2015, largely due to lower petroleum products sales, following a further decline in oil prices and slightly lower quantities sold, as well as reduced gas sales. These negative effects were partially offset by higher sales of electricity. The Group's **EBIT** for the year 2016 amounted to RON 1,469 mn, compared to the loss of RON (530) mn in 2015, when impairments of producing assets in the Upstream segment were recorded, following reduced oil price assumptions. The net special charges in 2016 totaled RON (127) mn, mainly due to a reassessment of receivables and provisions. **The net result was a profit** of RON 1,038 mn in 2016 (2015: net loss of RON (690) mn).

The **return on average capital employed**^{vii} (ROACE) reached a positive value of 4.1% (2015: (2.2)%), while Clean CCS ROACE decreased to 4.5% at the end of 2016, from 6.5% at the end of 2015.

Due to the strong cash balance at December 31, 2016, the Group switched to a **net cash** position of RON 237 mn, compared to the net debt

position of RON 1,286 mn as at December 31, 2015. The gearing ratio was 5% as at December 31, 2015.

As regards the **operational performance**, in **Upstream**, we further reduced production costs, which more than compensated the production decline impact, but could not fully offset the effect from lower prices. Despite further reduced investments, we managed to limit the daily production decline to only 2.5% yoy, well below the upper limit of our guidance of 4%. In Romania, total oil, gas and NGL production amounted to 60.66 mn boe, lower by 2% compared to the previous year. Domestic crude oil production was 26.34 mn bbl, 4% down compared to the 2015 level mainly due to natural decline and surface works (both onshore and offshore). Domestic gas production was 34.32 mn boe, almost flat compared to the 2015 level. Oil and gas production in Kazakhstan decreased by 7% to 3.07 mn boe, due to natural decline and facility maintenance.

Downstream contribution in OMV Petrom

OPEX reduction compensated production decline

^{vii} For definitions of these ratios please refer to pages 84-86, section "Abbreviations and definitions"

Improved cost management partly offset lower refining margins

results was higher in 2016 vs. 2015, showing the benefits of our integrated business model.

Downstream Oil results were influenced by lower refining margins despite improved cost management. The Group total refined product sales amounted to 4.93 mn t in 2016, 2% lower compared to 2015, reflecting lower export sales. The utilization rate of the Petrobrazi refinery was slightly higher at 89% (2015: 88%), supported by better domestic demand of petroleum products, and despite the one-month planned turnaround of the refinery.

In **Downstream Gas** total gas sales volumes decreased by 2% to 50.4TWh (2015: 51.4TWh) mainly due to lower volumes available in storage at the beginning of 2016 (according to the company's objective to minimize storage expenses). The integration with the Brazi power plant played a key role, particularly in the summer time. Total net electrical output of the Brazi power plant reached 2.83TWh (2015: 2.56 TWh) while Dorobantu wind park generated a net electrical output of 0.08TWh in 2016, stable versus 2015, receiving around 128,000 green certificates, half of them eligible for sale after January 1, 2018.

Earnings before interest and taxes (EBIT)

EBIT (RON mn)			
	2015	2016	Δ (%)
Upstream ¹	(1,815)	401	n.m.
Downstream	1,014	1,293	28
thereof Downstream Oil	1,230	1,289	5
thereof Downstream Gas	(216)	3	n.m.
Corporate and Other	(75)	(72)	4
Consolidation: elimination of intercompany profits	346	(153)	n.m.
OMV Petrom Group EBIT	(530)	1,469	n.m.

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

No oil price related impairments in 2016

In **Upstream, EBIT** improved to a positive result of RON 401 mn, compared to a loss of RON (1,815) mn in 2015, when it was affected mostly by impairments of production assets in Romania and Kazakhstan totaling RON 2.7 bn. The result in 2016 was largely impacted by lower prices, hydrocarbon volumes and the reassessment of receivables and provisions, which more than offset lower exploration expenses, production costs, depreciation and royalties. In addition, the oil price hedges for the period Q4/15 through Q2/16 were monetized in 2015 and together with the oil price hedges for Q3/15 improved the 2015 EBIT by RON 101 mn.

In **Downstream Oil, EBIT** came in at RON 1,289 mn (2015: RON 1,230 mn), reflecting mainly improved cost management and the positive

effect of the reduction of fines imposed by the Competition Council, partially offset by lower refining margins and by the reassessment of receivables and provisions. The **indicator refining margin** decreased to USD 6.98/bbl, from USD 8.71/bbl in 2015, reflecting a challenging refining environment, with lower product spreads despite lower cost for crude consumed.

In **Downstream Gas, EBIT** improved to RON 3 mn versus RON (216) mn in 2015. The gas business experienced persistent pressure on volumes and margins, while the power business contribution significantly improved, as a result of a good mix of spot and forward sales and supported by higher spark spreads. The Downstream Gas result was also impacted in 2015 by RON (87) mn net provisions for

outstanding receivables, whereas, in 2016, the net impact from provisions was favorable, at RON 13 mn.

EBIT in the **Corporate and Other (Co&O)** segment amounted to RON (72) mn, broadly in line with prior year (2015: RON (75) mn).

**Broadly stable
Co&O EBIT**

Notes to the income statement

Summarized income statement (RON mn)

	2015	2016	Δ (%)
Sales revenues	18,145	16,247	(10)
Direct selling expenses	(383)	(303)	21
Cost of sales	(16,403)	(12,941)	21
Other operating income	501	488	(3)
Selling and administrative expenses	(1,122)	(1,064)	5
Exploration expenses	(577)	(262)	55
Other operating expenses	(692)	(696)	(1)
Earnings before interest and taxes (EBIT)	(530)	1,469	n.m.
Net financial result	(196)	(204)	(4)
Taxes on income	36	(227)	n.m.
Net income/ (loss)	(690)	1,038	n.m.
Less net income / (loss) attributable to non-controlling interests	(14)	(6)	59
Net income/ (loss) attributable to stockholders of the parent	(676)	1,043	n.m.

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 2015, **consolidated sales revenues** decreased by 10% to RON 16,247 mn, largely due to lower petroleum products sales, following a further decline in oil prices and slightly lower quantities sold, as well as reduced gas sales. These negative effects were partially offset by higher sales of electricity. After the elimination of intra-group transactions of RON 6,867 mn, the contribution of the **Upstream** segment representing sales to third parties was RON 436 mn or about 3% of the Group's total sales revenues (2015: RON 682 mn). Sales to external customers in the **Downstream Oil** segment amounted to RON 11,655 mn or 72% of total consolidated sales (2015: RON 13,224 mn). After elimination of intra-group sales, the **Downstream Gas** segment's contribution was

RON 4,118 mn or approximately 25% of total sales (2015: RON 4,206 mn).

Sales to external customers are split by geographical areas on the basis of where the risks and benefits are transferred to the customer. Romania and Central and Eastern Europe represent the Group's most important **geographical markets**. Sales in Romania were in amount of RON 13,461 mn or 83% of the Group's total sales (2015: RON 14,801 mn) and sales in the rest of Central and Eastern Europe were RON 2,771 mn or 17% of Group sales (2015: RON 3,324 mn).

Direct selling expenses decreased to RON 303 mn in 2016, from RON 383 mn in 2015, mainly as a result of a decrease in sales related taxes in the Kazakh companies. **Cost of sales**, which includes variable and fixed production costs, as well as costs of goods and materials employed,

**83% of Group
sales in Romania**

Lower exploration expenses

decreased by 21%, to RON 12,941 mn, as a result of lower impairments (2015 being affected by impairments of producing assets in Upstream), lower depreciation and quantities of gas and petroleum products sold. **Selling and administrative expenses** amounting to RON 1,064 mn decreased by 5% versus 2015 due to cost efficiency measures.

Exploration expenses decreased to RON 262 mn (2015: RON 577 mn), mainly due to reduced activity at the Neptun block.

Other operating expenses were fairly flat compared to 2015, reaching RON 696 mn.

The net financial result, broadly in line with prior year, shows a net expense of RON 204 mn (2015: RON 196 mn).

Taxes on income were in amount of RON (227) mn, mainly driven by the profit generated during 2016, while in 2015 were positive at RON 36 mn, due to the deferred tax revenues triggered by impairments of assets in Upstream.

Capital expenditure (CAPEX)

Capital expenditure (RON mn)	2015	2016	Δ (%)
Upstream	3,486	2,119	(39)
Downstream	402	453	13
thereof Downstream Oil	393	440	12
thereof Downstream Gas	9	13	40
Corporate and Others	7	3	(52)
Total capital expenditure	3,895	2,575	(34)
+/- Other adjustments ¹	710	218	(69)
- Investments in financial assets	(0)	(1)	415
Additions according to statement of non-current assets (intangible and tangible assets)	4,606	2,792	(39)
+/- Non-cash changes ²	419	125	(70)
Cash outflow due to investments in intangible and tangible assets	5,025	2,917	(42)
+ Net inflow from sale/investment in subsidiaries, non-current assets and other financial assets	(72)	(22)	(69)
Net cash used for investing activities	4,953	2,896	(42)

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 down 34% yoy

Capital expenditure decreased to RON 2,575 mn (2015: RON 3,895 mn), mainly due to a substantial reduction in Upstream CAPEX.

Investments in **Upstream** activities (RON 2,119 mn) represented 82% of total Group CAPEX for 2016, being 39% below the 2015 level, as

the swift reaction to the oil price decrease led to the prioritization of Investments. Upstream investments were focused on activities related to workovers and subsurface operations, finalizing field redevelopments, surface facilities, drilling development wells, as well as investments related to the Neptun Deep project.

Downstream investments amounted to RON 453 mn (2015: RON 402 mn). Downstream Oil investments amounted to RON 440 mn (2015: RON 393 mn), mainly reflecting the planned

Petrobrazil refinery turnaround and investments directed to efficiency and growth opportunities, as well as for legal and environmental compliance projects.

Statement of financial position

Summarized statement of financial position (RON mn)

	2015	%	2016	%
Assets				
Non-current assets	36,020	88	35,129	85
Intangible assets and property, plant and equipment	31,708	77	30,861	75
Investments in associated companies	41	0	44	0
Other non-current assets	2,708	7	2,672	6
Deferred tax assets	1,563	4	1,552	4
Current assets	5,098	12	6,285	15
Inventories	1,965	5	1,950	5
Trade receivables	1,318	3	1,540	4
Assets held for sale	119	0	273	1
Other current assets	1,696	4	2,522	6
Total assets	41,118	100	41,414	100
Equity and liabilities				
Total equity	25,688	62	26,706	64
Non-current liabilities	10,382	25	10,087	24
Pensions and similar obligations	239	1	225	1
Interest-bearing debts	1,424	3	1,141	3
Decommissioning and restoration obligations	7,941	19	7,923	19
Provisions and other liabilities	765	2	798	2
Deferred tax liabilities	13	0	0	0
Current liabilities	5,049	12	4,621	11
Trade payables	2,318	6	2,290	6
Interest-bearing debts	379	1	410	1
Liabilities associated with assets held for sale	10	0	136	0
Provisions and other liabilities	2,342	6	1,786	4
Total equity and liabilities	41,118	100	41,414	100

Compared to December 31, 2015, **total assets** increased by RON 296 mn, to RON 41,414 mn, mainly driven by a higher cash and cash equivalents position, which more than compensated the net reduction in non-current

assets, as depreciation and impairments exceeded investments during the period and assets related to 19 marginal onshore fields were reclassified as held for sale during 2016. Additions to intangible assets and property,

Higher cash position

Switch from net debt to net cash

plant and equipment amounted to RON 2,792 mn (2015: RON 4,606 mn). The ratio of intangible assets and property, plant and equipment to total assets was 75% (2015: 77%).

The increase in **total equity** by RON 1,018 mn was the result of the net profit generated in the current year. The equity ratio slightly increased to 64% (2015: 62%).

The net decrease in **interest-bearing debts** (both **long- and short-term**) by RON 252 mn was mainly related to partial loan reimbursements in 2016, slightly offset by the RON depreciation versus EUR and USD at the end of 2016 compared to the end of 2015.

The Group's **liabilities other than interest bearing debts** (both **long- and short-term**)

decreased by RON 470 mn, due to lower financial liabilities, broadly reflecting the completion of the exploration drilling campaign in the Black Sea.

Gearing ratio

Due to the strong cash balance at December 31, 2016, OMV Petrom Group switched to a net cash position of RON 237 mn, compared to the net debt position of RON 1,286 mn on December 31, 2015. The gearing ratio was 5% as at December 31, 2015.

Cash flow

Summarized cash-flow statement (RON mn)

	2015	2016
Sources of funds	5,137	4,482
Cash flow from operating activities	5,283	4,454
Cash flow from investing activities	(4,953)	(2,896)
Free cash flow	329	1,559
Cash flow from financing activities	(794)	(376)
Effect of exchange rates on cash and cash equivalents	10	0
Net increase / (decrease) in cash and cash equivalents	(455)	1,183
Cash and cash equivalents at beginning of the period	1,268	813
Cash and cash equivalents at end of the period	813	1,996
Free cash flow after dividends	(301)	1,558

In 2016, 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 4,482 mn (2015: RON 5,137 mn), while **net working capital** generated a cash outflow of RON 27 mn (2015: inflow of RON 146 mn). **Cash flow from operating activities** decreased by RON 828 mn compared to 2015, reaching RON 4,454 mn.

In 2016, the **cash outflow from investing activities** amounted to RON 2,896 mn (2015: RON 4,953 mn) mainly related to payments for

investments in intangible assets and property, plant and equipment.

Free cash flow (defined as cash flow from operating activities less cash flow from investing activities) showed an inflow of funds of RON 1,559 mn (2015: RON 329 mn). **Free cash flow less dividend payments** resulted in a cash inflow of RON 1,558 mn (2015: outflow of RON 301 mn).

Cash flow from financing activities reflected a net outflow of funds amounting to RON 376 mn (2015: RON 794 mn), mainly arising from the repayment of tranches from the loans from the European Investment Bank and the European

Bank for Reconstruction and Development, with 2015 also including payments of dividends for the year 2014.

Risk management

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

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

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

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

Furthermore, OMV Petrom's risk management system is part of the corporate decision-making process. For any new major projects, new strategies or market directions, workshops are organized for assessing the risks associated with the benefits of the respective opportunity. The risk information collected in the workshops as well as any relevant third party opinions are used for taking informed decisions. OMV Petrom's Enterprise Wide Risk Management (EWRM) system follows ISO31000 and comprises a dedicated risk organization

working under a robust internal regulation framework with quantitative information technology infrastructure. Additionally, EWRM system actively pursues the identification, analysis, evaluation and treatment 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. The EWRM process is embedded into the day-to-day operational business and delivers against its intended purpose.

OMV Petrom has four levels of risk management roles in a pyramid-type risk organization. The first bottom layer comprises the risk owners represented in all areas of activity by managers of various areas, the second level are the business units and divisional risk coordinators who facilitate and coordinate the risk management process in their division, the third layer is the risk manager function represented by the Risk Management department who coordinates the entire risk management process assisted by the specialized corporate functions (HSSE, Compliance, Legal, Finance, Controlling). The top level role 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 EWRM system has been assessed via external benchmark as in line with best practice at international level.

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

In terms of tools and techniques, OMV Petrom follows the best international practices in risk management and uses stochastic quantitative models to measure the potential loss associated with the company's risk portfolio under a 95%

Four level pyramid-type risk management

Best international risk management practices applied

**Market risk –
core strategic
importance**

confidence level and a three-year horizon. The identified risks are analyzed depending on their nature, with consideration to their causes, consequences, historical trends, volatilities and cash flow potential impact.

OMV Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and operational risks regarding low probability high impact hazards. Other risks that influence the company's results are counterparty credit risk, liquidity risk and interest rate risk.

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

Derivative financial instruments may be used for the purposes of managing exposure to commodity price and to foreign exchange currencies, which are evaluated, considering OMV Petrom's needs and approved by OMV Petrom's Executive Board in line with the company's risk appetite.

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

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is given to process safety risks where OMV Petrom's policy is to "prevent incidents, ensure safe operations". The low probability high impact risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are identified and for each of them incident scenarios are developed and assessed. Where required, treatment plans are developed for each specific location. Besides

emergency, crisis and disaster recovery plans, OMV Petrom's policy with regard to insurable risks is to cover them 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, business partners and suppliers. On the basis of creditworthiness and available rating information, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis.

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

OMV Petrom is inherently exposed to **interest rate risk** due to its financing activities. The volatility of EURIBOR and LIBOR may trigger less or additional cash flow resources necessary to finance the interest payments associated with OMV Petrom's debt. However the mentioned volatility is low and this has a positive impact over the potential risk.

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. As far as compliance risks are concerned, the company organizes regular trainings and awareness campaigns.

OMV Petrom’s consolidated risk profile is regularly reported in comparison with the company’s risk appetite for the Executive Board’s approval and for the information of the Audit Committee of the Supervisory Board. In 2016, in March and October, the consolidated risk profile was reported and approved by OMV Petrom’s Executive Board in accordance with the company’s risk appetite and was also afterwards presented for information to the Audit Committee.

Internal control

The Group has implemented an internal control

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

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

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

Internal control covers all activity areas

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

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

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

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

Improved commodity prices expected

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

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

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

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

In accordance with Chapter 8 of Ministry of Public Finance Order no. 2844/2016 for

approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council, management prepared a consolidated report on payments to governments for the year 2016. This report will be published together with the consolidated financial statements of OMV Petrom for the year ended December 31, 2016.

Subsequent events

Please refer to Note 36 in the Consolidated Financial Statements.

Outlook 2017

Market, regulatory and fiscal environment

For the year 2017, we expect the average Brent oil price to be at USD 55/bbl. The Brent-Urals spread is anticipated to slightly decrease compared to 2016.

We estimate **gas** demand in Romania to remain broadly flat in 2017 compared to 2016, with high competition and margin pressure, including from import gas and new entrants. Additional pressure on prices and margins overall is coming from the amendments to the Energy Law, including the obligation for gas producers and suppliers to sell/buy via centralized platforms. In the **power** market, demand for 2017 is anticipated to be also relatively stable, with positive average spark spreads throughout the year.

Refining margins are projected to trend downwards in 2017 due to crude price recovery and persisting overcapacity in the market. However, lower product prices resulting from further fiscal easing in Romania (1pp VAT reduction and the elimination of the additional 7 eurocents/liter excise starting January 2017) will continue to support market demand in an environment with strong competition.

The supplementary **taxation** was extended until the end of 2017 and the special construction tax was eliminated as of January 1, 2017. In addition, as announced by the authorities, further developments are expected with respect to **upstream oil and gas taxation**, with public consultations envisaged to take place before

new measures are applied. As previously stated, a stable, predictable and investment-friendly fiscal and regulatory framework is a key requirement for our future investments, both onshore and offshore.

Investments

Supported by anticipated improved commodity prices and our continuous focus on cost discipline, OMV Petrom expects to generate a positive free cash flow after dividends in 2017. CAPEX (including capitalized exploration and appraisal) for 2017 is anticipated to be around EUR 0.8 bn, about 40% higher yoy, with approximately 85% dedicated to Upstream. Exploration expenditure is expected to increase by 15% compared to the previous year. Based on the results and strong free cash flow achieved in 2016, the Executive Board proposed and the Supervisory Board approved a dividend of RON 0.015/share for the 2016 financial year, subject to the approval of April 25, 2017 General Meeting of Shareholders.

In **Upstream**, Group's full year average production decline is estimated to be up to 3% compared with 2016, not including new portfolio optimization initiatives. The transfer of 19 marginal fields is ongoing and OMV Petrom will initiate the assessment of the next round of field divestment.

Around 1,000 workovers and approximately 70 new production wells, as well as six exploration wells are planned to be drilled in 2017. With regards to the Neptun Deep block (50% OMV Petrom; 50% ExxonMobil) extensive work is still ongoing to determine the commercial viability of the project.

In **Downstream Oil**, the focus on improving operational performance and delivering on economic energy efficiency upgrades will continue. The refinery utilization rate is expected to be above 90% in 2017, as we expect to maintain the strong performance in all sales channels.

In **Downstream Gas**, we expect to maintain our strong position in the gas market with sales

volumes of around 50TWh in 2017. We will pursue expanding and diversifying the customer portfolio by enhanced offer and customer experience. One gas turbine of the Brazi power plant is expected to remain unavailable until Q3/17, resulting in lost market opportunities; acquisition of a new transformer will imply a single digit EUR mn CAPEX. In addition, a three-week shutdown is planned for the second gas turbine of the Brazi power plant in Q2/17. However, we will strive to capture the highest benefits from the integrated business model. With regards to the Dorobanțu wind park, the divestment process is ongoing, and we estimate to finalize it by the end of 2017.

**Production
decline up to 3%
in 2017 yoy**

Corporate governance report

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 opportunities.

OMV Petrom is governed in a two-tier system

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

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

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

Bucharest Stock Exchange Corporate Governance Code

The Company first adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010 and continues to apply its principles, ever since then. OMV Petrom complies with almost all of

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

General Meeting of Shareholders (GMS)

GMS organization

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

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

The GMS is usually chaired by the President of the Supervisory Board, who may designate another person to chair the meeting. The chairman of the GMS designates two or more technical secretaries to verify the fulfillment of the formalities required by law for carrying out the GMS and for drafting the minutes thereof. At first convening, the quorum requirements are met if the shareholders representing more than ½ of the share capital of the Company are present, decisions being validly passed with the affirmative vote of shareholders representing the majority of the share capital

High corporate governance standards since 2010

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

In observance of capital market regulations, the resolutions of the GMS are disseminated to the Bucharest and London Stock Exchanges and the Financial Supervisory Authority within 24 hours after the event. The resolutions will also be made available on the Company's website. The Company actively promotes the participation of its shareholders in the GMS. The shareholders duly registered in the shareholders' register at the reference date may attend the GMS in person or by representation, based on a general or special proxy. Shareholders may also vote by correspondence, prior to the GMS. The Company makes available at the headquarters and/ or on the Company's website templates of such proxies and voting bulletins for the votes by correspondence. The shareholders of the Company, regardless of the stake of the share capital, may raise questions in writing or verbally regarding the items on the agenda of the GMS. In order to protect the interests of our shareholders, the answers to the questions shall be provided by observing the regulations applicable to special regime information (e.g. classified information), as well as of disclosure of commercially sensitive information that could result in a loss or a competitive disadvantage for the Company.

GMS main duties and powers

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

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

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

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

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

Shareholders' rights

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

Shareholders have, amongst others rights provided under the Company's Articles of Association and the laws and regulations currently in force, the right to obtain information about the activities of the Company, regarding the exercise of voting rights and the voting results in the GMS. Shareholders have also the right to participate and vote in the GMS, as well as to receive dividends. OMV Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote.

Moreover, shareholders have the right to challenge the decisions of GMS or to withdraw from the Company and to request the Company to acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders holding, individually or jointly, at least 5% of the share capital, may request

**One share,
one vote, one
dividend**

GDR holders' rights

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

GDR holders' rights

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

- ▶ withdraw the deposited shares;
- ▶ receive payment in US dollars from the GDR depository of an amount equal to cash dividends or other cash distributions received by the GDR depository from the Company in respect of the deposited shares, net of any applicable fees, charges and expenses of the depository and any taxes withheld;
- ▶ receive from the GDR depository additional GDRs representing additional shares received by the GDR depository from the company by way of free distribution (or if the issue of additional GDRs is deemed by the GDR depository 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 depository to exercise subscription or similar rights made available by the Company to shareholders (or if such process is deemed by the GDR depository 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 depository regarding the exercise of any voting rights notified by the Company to the GDR depository subject to certain conditions;
- ▶ receive from the GDR depository copies received by the GDR depository of notices provided by the Company to shareholders or other material information.

Supervisory Board

Supervisory Board members

The Supervisory Board consists of nine

members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started in 2013 and runs until 28 April 2017.

At the beginning of 2016, the Supervisory Board consisted of the following members: Rainer Seele (President), David Charles Davies (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, Riccardo Puliti, George Băeșu, Bogdan - Nicolae Badea and Joseph Bernhard Mark Mobius.

During 2016, there were three changes in the membership of the Supervisory Board. Hence, at the end of 2016, the membership of the Supervisory Board comprised the following individuals: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, George Băeșu, Dan Manolescu, Joseph Bernhard Mark Mobius and Jochen Weise.

Likewise, as of January 1, 2017, following Christoph Trentini's waiver of his mandate as member of the Supervisory Board, Daniel Turnheim was appointed as member of the Supervisory Board until the next GMS.

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

Rainer Seele (1960) – President

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

the Wintershall Board.

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

On September 22, 2015, he was appointed as member of the OMV Petrom Supervisory Board by the Ordinary GMS and confirmed as President of the OMV Petrom Supervisory Board.

Reinhard Florey (1965) – Deputy President

Reinhard Florey graduated in mechanical engineering and economics from Graz University of Technology while also completing his music studies at the Graz University of Fine Arts. He started his career in corporate consulting 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.

He was appointed as interim member and deputy president of the OMV Petrom Supervisory Board effective as of August 1, 2016 until the next GMS.

Manfred Leitner (1960)

Manfred Leitner studied commerce at the Vienna University of Economics and Business and then followed an Executive Program at Stanford Graduate School of Business. He began his career with OMV in 1985 in the Exploration & Production division. After several years abroad as finance manager in Tripoli, he returned in 1990 to Austria to take charge of 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.

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

Johann Pleininger (1962)

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

Johann Pleininger was appointed as OMV Petrom Supervisory Board member at the Ordinary OGMS on April 29, 2014.

George Băeșu (1970) - independent ^{viii}

George Băeșu graduated from the Lucian Blaga University in Sibiu, the Law Faculty, and was awarded the MA Degree in Business Law by the Nicolae Titulescu University. In 2011 he was awarded the PhD Degree in Law by the University of Bucharest.

Between 1994 and 1999, he worked as a journalist for "Milcovul Focșani" newspaper. Between 2001 and 2004, he was Sub-prefect and Prefect of the Vrancea County and, between 2004 and 2008, George Băeșu has served as a deputy in the Romanian Parliament, secretary of the Committee for Legal Matters, Discipline and Immunities and member of the European Business Commission.

Between 2009 and 2012 he served as an Economic Counsellor with the Ministry of Economy, Commerce and Business

Three independent members in the SB

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

Environment and with the Romanian Embassy in Athens, period in which he completed tasks regarding the bilateral and regional collaboration in the field of energy. He was appointed as OMV Petrom Supervisory Board member at the Ordinary GMS on April 22, 2013.

Dan Manolescu (1976) – independent ^{ix}

Dan Manolescu holds a PhD in Economics, awarded by the Academy of Economic Studies in Bucharest and a bachelor degree from Faculty of Law - University of Craiova.

Since 2007 he is a Certified Fiscal Consultant, member of the Romanian Chamber of Fiscal Consultants, where he currently also serves as President. Since 2008 he is a Certified Financial Auditor. In January 2013 he was appointed Secretary of State in the Ministry of Public Finance where he led the efforts behind a major legislative revision enacted in January 2016 that restructured Romania's tax codes.

Dan Manolescu occupied various positions in the corporate bodies of some banking institutions such as member of the Board of Directors of CEC Bank SA in the period 2015-2016 and member of the Board of Directors of the National Credit Guarantee Fund for Small and Medium Enterprises in the period 2013-2015. He was awarded the Eisenhower Fellowship in 2016.

Dan Manolescu was appointed as member of the OMV Petrom Supervisory Board at the Ordinary GMS on April 26, 2016.

Joseph Bernhard Mark Mobius (1936)

Mark Mobius earned a bachelor's and master's degrees from Boston University, and a Doctor of Philosophy (Ph. D) in economics and political science from the Massachusetts Institute of Technology. He has spent more than 40 years working in emerging markets all over the world. He joined Franklin Templeton in 1987 as president of Templeton Emerging Markets Fund, Inc. In 1999, he was appointed joint chairman of the Global Corporate Governance Forum Investor Responsibility Taskforce of the World Bank and Organization for Economic Cooperation and Development. Mark Mobius

is currently Executive Chairman of Templeton Emerging Markets Group, directs the analysts of Franklin Templeton's 18 emerging market offices and manages the emerging markets portfolios.

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

Jochen Weise (1956) – independent ^{ix}

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

Jochen Weise was elected by the Supervisory Board as interim member of OMV Petrom Supervisory Board effective as of November 1, 2016 until the next GMS.

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 of OMV Petrom and CFO between January 2011 and December 2012. During the period January 2013 – June 2016, Mr. Turnheim was Senior Vice-president of Corporate Finance within OMV Aktiengesellschaft. Since July 2016 he holds the position as Senior Vice-President of Corporate Finance & Controlling within OMV Aktiengesellschaft.

Daniel Turnheim was appointed by the Supervisory Board as interim member of OMV Petrom Supervisory Board effective as of January 1, 2017 until the next GMS.

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

Supervisory Board main duties and powers

The Supervisory Board has the following main powers:

- ▶ to exercise control over the management of the Company by the Executive Board;
- ▶ to appoint and revoke the members of the Executive Board;
- ▶ to submit to the GMS a report concerning the supervision activity undertaken;
- ▶ to verify the reports of the members of the Executive Board;
- ▶ to verify the Company's annual separate and consolidated financial statements;
- ▶ to propose to the GMS the appointment and the revocation of the independent financial auditor, as well as the minimum term of the audit contract.

Details on the Supervisory Board works and activities in 2016, as well as the results of the Supervisory Board self-evaluation are included in the Supervisory Board Report.

Supervisory Board organization

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

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

Special Committees

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the Supervisory Board itself, without thereby preventing the entire Supervisory Board from dealing with matters assigned to the committees. As of December 31, 2016, the only special committee established at the level of the Supervisory Board was the Audit Committee.

Audit Committee

The Audit Committee is composed of three members, including the president and the deputy president of the Audit Committee, appointed by decision of the Supervisory Board from amongst Supervisory Board members. At the beginning of 2016, the Audit Committee was composed of Riccardo Puliti, David Charles Davies and George Băeșu. During 2016, there were two changes in the membership of the Audit Committee as detailed in the Supervisory Board report. Hence, at the end of 2016, as well as at the date of this report, the Audit Committee consisted of Reinhard Florey (President), Jochen Weise (Deputy President - independent) and George Băeșu (Member - independent). The Audit Committee's members have adequate qualifications relevant to the functions and responsibilities of the Audit Committee.

Audit Committee main duties and powers

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

- ▶ Financial reporting – to examine and review the annual financial statements of the Company and the proposal for the distribution of the profits before their submission to the Supervisory Board and subsequently to the GMS for approval; starting with March 23, 2017, the responsibilities of the Audit Committee include also overseeing and approving

In 2016, the Audit Committee was the only special committee of the Supervisory Board

A Presidential and Nomination Committee was created in March 2017

the nature and level of non-audit services provided by the independent financial auditor to the Company, as well as 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 2016 are included in the Supervisory Board Report.

Audit Committee organization

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

The Audit Committee meets on a regular basis, at least three times per year, and on an extraordinary basis if required. The Audit Committee meeting is chaired by the President or, in his/her absence, by the Deputy or by another member, by virtue of a mandate from the President. The decisions of the Audit Committee shall be taken by unanimous consensus of all members of the Audit Committee. In case unanimous consensus cannot be reached with respect to a specific item on the agenda, that item will be resolved upon by the Supervisory Board without the consultative opinion of the Audit Committee. In urgent cases, the Audit Committee may take decisions also by circulation, without an actual meeting being held, with the unanimous consensus of all members of the Audit Committee. The President shall decide on whether issues are of an urgent nature.

Presidential and Nomination Committee

In March 2017, the Company established a Presidential and Nomination Committee composed of four members appointed by the Supervisory Board amongst its members namely: Rainer Seele (President), Manfred Leitner (Deputy President), Dan Manolescu (member – independent) and Joseph Bernhard Mark Mobius (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 Executive Board. In addition, the 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 4 years running until April 17, 2019.

At the beginning of 2016, the Executive Board was composed of the following members: Mariana Gheorghe (CEO and President), Andreas Matje (CFO and member), Gabriel Selischi (member in charge with Upstream activity), Neil Anthony Morgan (member in charge with Downstream Oil activity) and Lăcrămioara Diaconu-Pințea (member in charge with Downstream Gas activity).

The Supervisory Board appointed Peter Rudolf Zeilinger as member of the Executive Board in charge with Upstream activity, starting April 1, 2016, following Gabriel Selischi's waiver of his mandate effective with the same date.

Therefore, at the end of 2016, as well as at the date of this report, the Executive Board has the following membership:

Mariana Gheorghe (1956)

Chief Executive Officer and President of the Executive Board

She graduated from the Academy of Economic Studies, International Relations in 1979, the University of Bucharest, Law School in 1989

**Gender and
nationality
diversity at EB
level**

and London Business School, Corporate Finance evening program in 1995. She worked for various Romanian companies and for the Ministry of Finance. Between 1993 and 2006, she worked for the EBRD in London where she held various banking positions with a geographical focus on Southeastern Europe and the Caucasus Region, her last position being of Senior Banker. After Petrom's privatization in 2004 and following the EBRD's proposal, she became a member of the Board of Directors of Petrom until June 15, 2006, when she was appointed as CEO of Petrom. Starting April 2007, following the adoption of the two-tier management system, she is also the President of the Executive Board.

**Andreas Matje (1964)
Chief Financial Officer**

He studied Business Administration at the Vienna University of Economics and Business, specializing in Industrial Management and Marketing. He then followed a doctoral and various management programs, including a Global Executive MBA with Rotman School of Management, University of Toronto. Between 1995 and 1999, he was employed with OMV Aktiengesellschaft as division controller for Upstream. After several years spent in management positions with Polyfelt GmbH (a subsidiary of OMV Aktiengesellschaft until 2005, then known as TenCate Geosynthetics Austria), he rejoined OMV Aktiengesellschaft in 2009 as Senior Vice President Controlling. He joined OMV Petrom on January 1, 2013 as CFO and member of the Executive Board.

**Peter Rudolf Zeilinger (1965)
Responsible for Upstream**

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

Australia PTY LTD. He was appointed member of the OMV Petrom Executive Board starting April 1, 2016.

**Neil Anthony Morgan (1959)
Responsible for Downstream Oil**

He graduated in Chemical Engineering from the University of Salford (Manchester, UK). His experience in the Refining and Petrochemicals business spans over 20 years. Before joining Petrom, he worked four years for Petronas Penapisan (Malaysia), where he held the position of Project Director, Refinery Expansion Project. Prior to Petronas, he worked for 12 years for Engen Petroleum (Durban, South Africa). After joining Engen Petroleum in 1992 as a Process Control Specialist, he held several positions during his tenure there, from Chief Engineer Process Control and Information Technology to Technical Services Manager and Operations Manager. During 1985-1990, he was Production Manager, Operations Manager and Chief Process Engineer in Sentrachem Ltd (Johannesburg, South Africa). He joined Petrom in 2008 and was assigned responsibility for Refining and Petrochemicals. Starting April 17, 2011, further to the consolidation of OMV Petrom Group's marketing activities in OMV Petrom Marketing S.R.L., he has taken over responsibility for the Marketing activity also.

**Lăcrămioara Diaconu-Pințea (1973)
Responsible for Downstream Gas**

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

EB duties, powers and organization

until April 2015. She was appointed member of the OMV Petrom Executive Board starting April 17, 2015.

Executive Board main duties and powers

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

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

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

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

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

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

Executive Board organization

Responsibilities of the Executive Board members, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations. The Executive Board may hold meetings in person or by telephone or video conference. The meetings of the Executive Board are held regularly (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 convened and if at least three members, one of them being the CEO or CFO, are personally present. The Executive Board shall pass its resolutions by simple majority of the votes cast. In the event of a tie, the CEO shall have a casting vote. However, the CEO shall endeavor in her/his best efforts to achieve that, to the extent possible, resolutions are passed unanimously.

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

In 2016, the Executive Board met 54 times in person and passed resolutions by circulation on 16 other occasions in order to approve all

matters requiring its approval in accordance with the Articles of Association and the Company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the Company and to inform each other about all relevant issues of their activity.

Women's advancement

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

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

While there are no female members in the Supervisory Board of the Company, OMV Petrom has two women in the Executive Board: Mariana Gheorghe, the President of the Executive Board and Lăcrămioara Diaconu-Pințea, Executive Board member in charge with Downstream Gas. Moreover, at the end of 2016, around 38% of the first line directors reporting to the Executive Board were women, whilst the percentage of women in upper management in total (directors and head of departments) was around 29%. The proportion of women in the OMV Petrom Group as a whole increased to above 25% by year end, up by three percentage points compared to the previous year.

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

to act as organizational leaders and assume corresponding roles.

OMV Petrom is committed to protecting the rights, opportunities of all employees, by promoting parity and eliminating gender bias, by offering learning opportunities in diversity and by making available to all employees an Ombudsman Department to which employees may raise work related issues, including gender related, namely the PetrOmbudsman. More details on the role and functioning of the PetrOmbudsman may be found in the Sustainability/Non-financial statement section.

Basic Principles of Remuneration

The recent oil and gas industry downturn coupled with the latest workforce dynamics have emphasized the need to design financially sustainable and flexible compensation and benefits policies. Also, to maintain long-term competitiveness, OMV Petrom has set a performance-based organization and, correspondently, a performance-based reward management.

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

OMV Petrom's remuneration principles are targeting more than just being compliant with the legislation. The purpose is to strengthen the psychological contract with its people, for they are one of the main pillars of a Company's success.

Remuneration of the Supervisory Board members

The remuneration of the Supervisory Board members is resolved upon yearly by the

**OMV Petrom
supports gender
diversity**

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

For the proper running of their activity, Supervisory Board members may receive also some benefits in kind, such as mobile device for business and reasonable private use and liability insurance.

Remuneration of the Executive Board members

The remuneration of members of the Executive Board consists of fixed remuneration paid monthly either in EUR or RON, based on various contractual arrangements, as the case, 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 generally entitled to six fixed gross monthly remuneration payable according to their management agreement with the Company.

Remuneration of other staff

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

The remuneration of OMV Petrom employees

is at competitive levels for the relevant oil & gas industry and includes: (i) a fixed based 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, even a status car, car compensation or a functional company car and (iv) short term (quarterly and / or annual) performance-related component. The measures / key performance indicators used are based on financial and non-financial metrics.

Corporate governance statement ^x

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

^x The statement summarises the main highlights of the 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. On the occasion of each (re)appointment of Supervisory Board members, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company law), consisting in an individual personal assessment done by the relevant Supervisory Board member, followed by an external assessment. Moreover, for the purpose of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Supervisory Board members their independent or non-independent status as of December 31, 2016. Following this evaluation, it resulted that at all times during 2016 at least two Supervisory Board members met all the independence criteria provided by the Corporate Governance Code. At the date of this report there are three independent members of the Supervisory Board. Information on the independency of the members of the Supervisory Board is included on the Company's corporate website and in the Supervisory Board Report.</p>
<p>A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.</p>	✓		<p>Information on Supervisory Board and Executive Board members' permanent professional commitments and engagements, including executive and non-executive positions in companies and not-for-profit institutions are included in Supervisory Board and Executive Board members' CVs, available on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>A.6. Any member of the Board should submit to the Board information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.</p>	✓		<p>The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.</p> <p>The Company has put in place internal rules on how to deal with conflicts of interest.</p>
<p>A.7. The company should appoint a Board secretary responsible for supporting the work of the Board.</p>	✓		<p>The Company has a General Secretary, supporting the works of the Executive Board and of the Supervisory Board.</p>
<p>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.</p>	✓		<p>The Company has in place a Supervisory Board Self-Evaluation Guideline providing the purpose, criteria and frequency of such an evaluation. Based on this Guideline, the Supervisory Board underwent a self-evaluation process for the year 2016, under the leadership of the President of the Supervisory Board.</p> <p>The outcome of the Supervisory Board self-evaluation is presented in the Supervisory Board Report.</p>
<p>A.9. The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.</p>	✓		<p>As a rule, Company's Executive Board usually meets once a week, while the Supervisory Board meets whenever necessary, but at least once every three months. Details on the number of and attendance to the meetings of the Executive Board and the Supervisory Board, including the Audit Committee, in 2016, are included in the Supervisory Board Report and Corporate Governance Report.</p> <p>The reports of the Supervisory Board and Executive Board are included in the Annual Report and submitted for Ordinary GMS's approval.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>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>	✓		<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 2016, at least two Supervisory Board members met all the independence criteria. At the date of this report there are three independent members of the Supervisory Board.</p> <p>Information on the independency of the members of the Supervisory Board is included on the Company's corporate website and in the Supervisory Board Report.</p>
<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>		✓	<p>The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Company's Articles of Association and applicable law. Prior to the Ordinary GMS, their CVs are available for shareholders' consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board.</p> <p>The Executive Board members are appointed by decision of the Supervisory Board with the majority of votes, according to the Company's Articles of Association.</p> <p>Although during 2016 the Company did not have a nomination committee, in 2017 a Presidential and Nomination Committee, composed of four members appointed by the Supervisory Board amongst its members was established. One member of the Presidential and Nomination Committee is independent. The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in Executive Board. In addition, the Presidential and Nomination Committee has the right to make recommendations concerning the proposal of candidates for appointment in the Supervisory Board. Thus, starting March 23, 2017, the Company changed its compliance status with this provision from "non-compliance" to "partial compliance" given that currently the Nomination and Presidential Committee has only one independent member.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
Section B - Risk management and internal control system			
<p>B.1. The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.</p>	✓		<p>OMV Petrom's Supervisory Board has set up an Audit Committee among its members. Therefore the Audit Committee's members are all non-executives.</p> <p>During 2016, the Audit Committee was composed of three Supervisory Board members, out of which two met all independence criteria provided by the Corporate Governance Code.</p> <p>The Audit Committee includes members that have adequate qualifications relevant to the functions and responsibilities of the Audit Committee, while one member has also the necessary financial, audit and accounting expertise.</p>
<p>B.2. The audit committee should be chaired by an independent non-executive member.</p>		✓	<p>Being members of the Supervisory Board, all members, including the president of the Audit Committee, are non-executives.</p> <p>Based on the independence evaluation, it resulted that at all times during 2016, two of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code.</p> <p>Until November 1, 2016, the Company was fully compliant with this provision as one of the two independent members was the president of the Audit Committee.</p> <p>Starting November 1, 2016, following the approval of a new membership of the Audit Committee, the Company changed its compliance status with this provision from "compliance" to "partial compliance", 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>It has been concluded at that point in time as being more appropriate to appoint as president of the Audit Committee the member holding the position of deputy president considering that the independency and objectivity of the Audit Committee as a whole is not being impaired, while ensuring a smooth transition with respect to the ongoing works of the Audit Committee.</p> <p>The Company aims to rebecome fully compliant with this provision in the near future and for this purpose it is currently assessing possible alternatives.</p>

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

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>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.</p>	✓		<p>The Audit Committee submits periodic reports to the Supervisory Board on the specific subjects assigned to it.</p>
<p>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.</p>	✓		<p>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.</p>
<p>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.</p>	✓		<p>Company adopted an internal Policy on Related Party Transactions providing for the main principles of review, approval and disclosure of related party transactions, according to the applicable regulations and Company's statutory documents, including the fact that related party transactions that exceed or may be expected to exceed, either single or connected, an annual value of 5% of the Company's net assets in the previous financial year are to be approved by the Supervisory Board following the approval of the Executive Board and based on the review of the Audit Committee of the respective transaction.</p> <p>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.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>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.</p>	✓		<p>Internal audits are carried by a separate structural department within the Company, namely the Internal Audit department.</p>
<p>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>		✓	<p>Since October 1, 2016, the Internal Audit Department administratively reports to the CEO. Still, the Internal Audit Department continues to maintain some functional reporting to the Executive Board. This triggered the change of the compliance status with this provision, from “non-compliance” to “partial compliance”, starting with the same date. 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 endorses the annual internal audit plan. Therefore, in our opinion, the independency and objectivity of the internal audit function is not impaired by this reporting structure. Likewise, the Internal Audit Department did not encounter, in its past experience, cases that could be considered as jeopardizing its independence or objectivity due to these functionally reporting lines. The Company is currently in assessment with the aim of becoming fully compliant with this provision in the future.</p>
<p>Section C - Fair rewards and motivation</p>			
<p>C.1. The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.</p> <p>Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p>		✓	<p>The Company does not have a remuneration policy in place. However, although not yet formalized, the Company has and applies, consistently, some principles of remuneration concerning the Supervisory Board and Executive Board members, the senior management and the other staff. Such basic principles of remuneration are included in the Corporate Governance Report. The development of a remuneration policy is currently envisaged.</p>

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

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>D.3. A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts mean the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.</p>	✓		<p>The Company has a Forecast Policy which is published on its corporate website in the Investor Relations 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 for every GMS extensive convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Company ensures that the GMSs are adequately conducted and well organized while the shareholders' rights are duly observed.</p>
<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
<p>D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.</p>	✓		<p>All matters submitted for GMS approval are subject to Supervisory Board approval according to Company's internal rules.</p> <p>Moreover, the Annual Report submitted for GMS approval contains a brief assessment of the internal controls and significant risk management system.</p>
<p>D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.</p>	✓		<p>The Rules and Procedures of the GMS provide for the possibility for any professional, consultant, expert, financial analyst or accredited journalists to participate in the GMS, upon prior invitation from the President of the Supervisory Board.</p>
<p>D.8. The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.</p>	✓		<p>The quarterly and semi-annual financial reports include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.</p>
<p>D.9. A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.</p>	✓		<p>OMV Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for their investment decision.</p> <p>In 2016, OMV Petrom organized four conference calls with the occasion of publication of the quarterly results. In addition, the Company held one-to-one and group meetings and attended analyst and investor conferences, organized in Romania and abroad. For more details, please see also the Annual Report's section relating to OMV Petrom shares.</p> <p>The Investor Presentations were made available at the time of the meetings / conferences on the corporate website, in the Investor Relations section.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>D.10. If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.</p>	✓		<p>OMV Petrom conducts various activities regarding social and environmental responsibility.</p> <p>The Company has a Sustainability Policy in line with the Group Sustainability Strategy, published on the corporate website in the Investor Relations section, Corporate Governance sub-section.</p> <p>Likewise, please see also the Annual Report's section relating to Sustainability/Non financial statement.</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, 2016, 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 23, 2017
The Executive Board



Mariana Gheorghe
Chief Executive Officer
President of the EB



Andreas Matje
Chief Financial Officer
Member of the EB



Peter Zeilinger
Member of the EB
Upstream



Lăcrămioara Diaconu-Pințea
Member of the EB
Downstream Gas



Neil Anthony Morgan
Member of the EB
Downstream Oil

Abbreviations and definitions

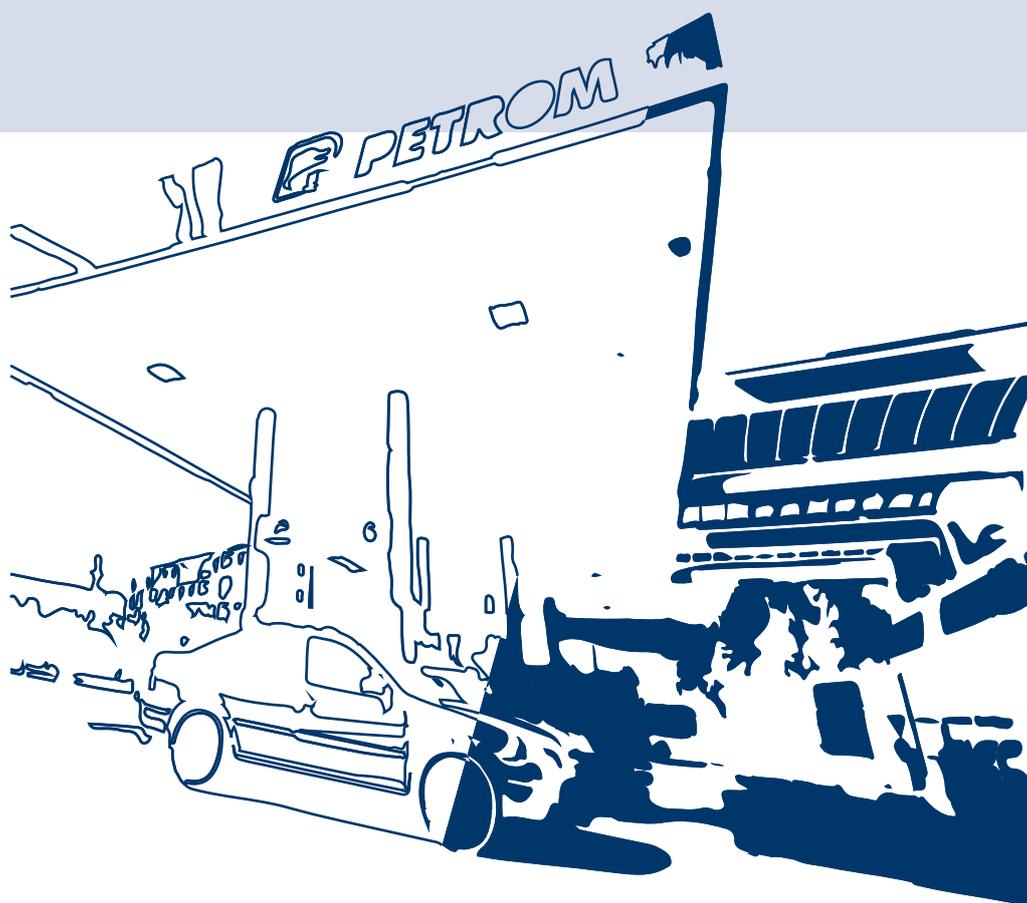
ANRE	Romanian Energy Regulatory Authority
bbl	barrel(s), i.e. 159 liters
bbl/d	bbl per day
bcf	billion cubic feet; 1 billion standard cubic meters = 35.3147 bcf for Romania or 34.7793 bcf for Kazakhstan
bcm	billion cubic meters
bn	billion
boe, kboe	barrels of oil equivalent, thousand barrels of oil equivalent
boe/d, kboe/d	boe per day, kboe per day
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 (EBIT, 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 EBIT	Earnings before interest and tax adjusted for special items and CCS effects. Group clean CCS EBIT is calculated by adding the clean CCS EBIT of Downstream Oil, the clean EBIT of the other segments and the reported consolidation effect adjusted for changes in valuation allowances, in case the net realizable value of the inventory is lower than its cost.
Clean CCS net income attributable to stockholders	Net income attributable to stockholders, adjusted for the after tax effect of special items and CCS
Clean CCS ROACE	Clean CCS Return On Average Capital Employed = NOPAT (as a sum of current and last three quarters) adjusted for the after tax effect of special items and CCS, divided by average Capital Employed (on a rolling basis, as an average of last four quarters) (%)
Co&O	Corporate and Other
CO ₂	Carbon Dioxide
CV	Curriculum Vitae
EB	Executive Board
EBIT	Earnings Before Interest and Taxes
EBITD	Earnings Before Interest, Taxes and Depreciation and amortization, impairments and write-ups of fixed assets
EBRD	European Bank for Reconstruction and Development
EU, EUR	European Union, euro(s)
EPS	Earnings per share = Net income attributable to stockholders divided by weighted number of shares

Equity ratio	Total equity divided by total assets (%)
EURIBOR	Euro Interbank Offered Rate
ExxonMobil	ExxonMobil Exploration and Production Romania Limited
FRD	Field redevelopment
FX	Foreign Exchange
Gearing ratio	Net debt divided by equity expressed as a percentage
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GHG	Greenhouse Gas
GMS	General Meeting of Shareholders
HSSE	Health, Safety, Security and Environment
HFO	Heavy Fuel Oil
IFRS	International Financial Reporting Standards
ISO 31000	International standard for risk management
IT	Information Technology
JV	Joint venture
LIBOR	London Interbank Offered Rate
LPG	Liquefied Petroleum Gas
LTIR	Lost time injury rate = Average injury frequency with one or more lost workday related to the working time performed
m, km	meter(s), kilometer(s)
mn	million
MW; MWh	megawatt(s); megawatt hour(s)
NAG	Non-Associated Gas
n.m.	not meaningful
Net debt	Interest bearing debts and financial lease liabilities less liquid funds (cash and cash equivalents)
NGL	Natural Gas Liquids – it refers to condensate only
NGO	Non-governmental organization
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
OGMS	Ordinary General Meeting of Shareholders
OPEC	Organization of Petroleum Exporting Countries
OPEX	Operating Expenses
Q	quarter
ROACE	Return On Average Capital Employed = NOPAT (as a sum of current and last three quarters) divided by average Capital Employed (on a rolling basis, as an average of last four quarters) (%)
RON	New Romanian leu
RRR	Reserve Replacement Rate
S.A.	JSC - Joint stock company (Societate pe Acțiuni)
SCADA	Supervisory Control and Data Acquisition
Special items	Special items are expenses and income reflected in the financial statements that are disclosed separately, as they are not part of underlying ordinary business operations. They are being disclosed separately in order to enable investors to better understand and evaluate OMV Petrom Group's reported financial performance.
S.R.L.	Ltd - Limited liability company (Societate cu Răspundere Limitată)

TOC	Tasbulat Oil Corporation
t, kt	metric tonne(s), thousand tonnes
t/y	tonne(s)/year
toe	tonne(s) of oil equivalent
TWh	terawatt hour(s)
US	United States
USD	United States dollar(s)
VAT	Value-added tax
yoy	year-on-year

Consolidated financial statements and notes

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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 ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2016, 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, 2016, 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). 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, 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 consolidated 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.

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 21,264 million as at 31 December 2016.</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 IFRS, an entity is required to assess whether impairment indicators exist. The assessment of whether there is an indication that an asset may be impaired requires significant judgement.</p> <p>The management established that the main risks and consequently the potential triggering events are estimates regarding long term Brent oil price, production volumes and production costs.</p> <p>The Group's disclosures about property, plant and equipment and related triggering events analysis are included in Note 2 (Judgements, Estimates and Assumptions) and Note 7 (Property, Plant and Equipment) to the consolidated financial statements.</p>	<p>We evaluated and tested management's assessment of the potential impairment indicators. Specifically our work included, but was not limited to the following procedures:</p> <ul style="list-style-type: none"> ▶ Analysis and evaluation of management's assessment of the existence of impairment indicators (triggering events); ▶ Comparison of the average oil price in 2016 with the estimated oil price in the budget prepared for 2016; ▶ Comparison of the actual production volumes and costs in 2016 of each cash generating unit with the production volumes and costs estimates in the budget prepared for 2016; ▶ Comparison of 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; ▶ Assess the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; and ▶ Check if there are significant downward revisions of oil and gas reserves to determine if they represent impairment indicators.

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 2,426 million at 31 December 2016, after a write off (impairment) of RON 120 million in 2016.</p> <p>Under IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p> <p>The assessment of the carrying value requires management to apply significant judgements and estimates in assessing whether any impairment has arisen at year end, and in quantifying any such impairment.</p> <p>The key estimates and assumptions relate to management’s intention to proceed with a future work program for a prospect or licence, the likelihood of licence renewal, and the success of drilling and geological analysis to date.</p> <p>The Group’s disclosures about intangible E&E assets and related impairment testing are included in Note 2 (Judgements, Estimates and Assumptions), Note 6 (Intangible Assets) and Note 21 (Cost Information) to the consolidated 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"> ▶ Assess the management’s intention to carry out exploration and evaluation activity for the main E&E projects, which included discussions with management and review of the Executive Board minutes of meetings where exploration plans and strategies were discussed; ▶ Read Executive Board minutes of meetings and consider whether there were negative indicators that certain projects might be unsuccessful. Discuss with the management about the status of the largest exploration projects; ▶ Test of actual versus budget analysis prepared by management for exploration and evaluation largest projects and inspection of evidence supporting the analysis to determine if there is any indication that certain projects might be unsuccessful; ▶ Assess 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; ▶ Identification of the existence of any fields where the Group’s right to explore is either at, or close to, expiry and review management’s assessment whether there are any risks related to renewal of the licence; and ▶ Review of supporting evidence where an exploration and evaluation asset has been impaired.

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 Group's future potential performance. Furthermore, they have an impact on the consolidated financial statements as they are the basis for production profiles in future cash flow estimates and basis for depreciation and amortization for the core assets in the Upstream segment.</p> <p>The estimation of oil and gas reserves requires significant judgement and assumptions made by management and engineers.</p> <p>The Group's disclosures about estimation of oil and gas reserves are included in Note 2 (Judgements, Estimates and Assumptions) to the consolidated 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"> ▶ Perform 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; ▶ Test Group-wide key controls over the reserves review process; ▶ Analysis of the internal certification process for technical and commercial specialists who are responsible for oil and gas reserves estimation; ▶ Assess the competence of both internal and external specialists and the objectivity and independence of external specialists, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; ▶ Analyse the report of the external specialists on their audit of Group's estimated oil and gas reserves as at 31 December 2015; ▶ Test whether significant additions or reductions in oil and gas reserves were made in the appropriate period and in compliance with the Group's Reserves and Resources Technical Standards and Guidelines; and ▶ Test 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.

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 8,271 million and RON 377 million respectively at 31 December 2016.</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 consolidated 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"> ▶ Perform 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; ▶ Compare current estimates of decommissioning, restoration and environmental costs with the actual costs incurred in previous periods. Where no previous data was available, we have reconciled cost estimates to third party support or the Group's engineers' estimates; ▶ Discuss with the management the estimates of allocation over time of works to be performed for surface and subsurface decommissioning for wells; ▶ Inspection of supporting evidence for any material revisions in cost estimates during the year; ▶ Assess the sensitivity analyses to understand the potential impact of reasonable changes in assumptions on the provisions recorded; ▶ Involvement of our valuation specialists to assist us in performing industry bench marking and analysis over discount rates and inflation rates; and ▶ Test of the mathematical accuracy of management's decommissioning and restoration provision and environmental provision calculations.

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 Company 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 2,130 million as at December 31, 2016 and the environmental liabilities in Upstream and Downstream Oil with a total net present value of RON 328 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 is considering inter alia history of amounts claimed, documentation process related requirements and potential litigation or arbitration proceedings.</p> <p>The Group's disclosures about Environmental and Decommissioning State Receivables are included in Note 9 (Trade Receivables and Other Financial Assets) to the consolidated 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 Company for historical environmental losses and abandonment costs, provided certain conditions are met; ▶ Review the management's assessment of the recoverability of the receivables from the Romanian State, including the history of amounts claimed vs. amounts accepted and reimbursed, and discuss about the status of the notices of claims submitted by the Company and of the Arbitration process; ▶ Trace the receivables for which notices of claim have been submitted to the respective notices of claims; ▶ Trace the receivables for which decommissioning was performed but the notices of claim have not yet been submitted to the respective decommissioning costs; ▶ Trace the receivables for which decommissioning has not yet been performed against the respective decommissioning provisions; ▶ Discuss with the management the estimates of timing of collection; and ▶ Test of the mathematical accuracy of the calculation of the net present value of the receivables recorded.

Other information

The other information comprises the Annual Report which includes the consolidated Directors' Report and consolidated Report on Payments to Governments, but does not include the consolidated financial statements and our auditors' report thereon. 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report

unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

On behalf of

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors in Romania
No. 77/15 August 2001



Name of signing person: Bogdan Ion
Registered with the Chamber of Financial Auditors in Romania
No. 1565/29 July 2004

Bucharest, Romania
23 March 2017

OMV PETROM S.A. AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016
 (all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2015	December 31, 2016
ASSETS			
Intangible assets	6	2,430.02	2,535.87
Property, plant and equipment	7	29,278.19	28,325.55
Investments in associated companies	8	40.69	43.69
Other financial assets	9	2,627.56	2,592.93
Other assets	10	80.29	78.88
Deferred tax assets	18	1,562.88	1,552.27
Non-current assets		36,019.63	35,129.19
Inventories	11	1,965.12	1,950.01
Trade receivables	9	1,318.28	1,540.04
Other financial assets	9	257.09	211.07
Other assets	10	626.90	314.88
Cash and cash equivalents		812.56	1,996.00
Current assets		4,979.95	6,012.00
Assets held for sale	12	118.58	272.92
Total assets		41,118.16	41,414.11
EQUITY AND LIABILITIES			
Share capital	13	5,664.41	5,664.41
Reserves		20,078.72	21,104.94
Stockholders' equity		25,743.13	26,769.35
Non-controlling interests		(55.10)	(63.16)
Total equity		25,688.03	26,706.19
Provisions for pensions and similar obligations	14	238.72	224.55
Interest-bearing debts	15	1,423.70	1,140.70
Provisions for decommissioning and restoration obligations	14	7,941.21	7,923.46
Other provisions	14	498.99	620.84
Other financial liabilities	16	266.26	177.25
Deferred tax liabilities	18	12.72	-
Non-current liabilities		10,381.60	10,086.80

The notes on pages 104 to 184 form part of these consolidated financial statements.

	Notes	December 31, 2015	December 31, 2016
Trade payables	16	2,317.81	2,289.75
Interest-bearing debts	15	378.72	409.62
Income tax liabilities		107.10	130.57
Other provisions and decommissioning	14	911.08	729.27
Other financial liabilities	16	548.13	220.29
Other liabilities	17	775.27	705.80
Current liabilities		5,038.11	4,485.30
Liabilities associated with assets held for sale	12	10.42	135.82
Total equity and liabilities		41,118.16	41,414.11

These consolidated financial statements were approved on March 23, 2017.



Mariana Gheorghe,
Chief Executive Officer
President of the EB



Andreas Matje,
Chief Financial Officer
Member of the EB



Peter Zeilinger,
Member of the EB
Upstream



Lăcrămioara Diaconu-Piñtea,
Member of the EB
Downstream Gas



Neil Morgan,
Member of the EB
Downstream Oil



Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

The notes on pages 104 to 184 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016
 (all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2015	December 31, 2016
Sales revenues	27	18,144.98	16,246.92
Direct selling expenses		(383.10)	(303.45)
Cost of sales		(16,402.56)	(12,940.55)
Gross profit		1,359.32	3,002.92
Other operating income	19	501.45	488.14
Selling expenses		(939.13)	(928.03)
Administrative expenses		(182.86)	(135.90)
Exploration expenses		(576.61)	(262.19)
Other operating expenses	20	(691.92)	(695.67)
Earnings before interest and taxes (EBIT)	27	(529.75)	1,469.27
Income from associated companies	8, 22	7.40	6.93
Interest income	23	234.82	172.78
Interest expenses	23	(430.99)	(357.24)
Other financial income and expenses	24	(7.45)	(26.81)
Net financial result		(196.22)	(204.34)
Profit/(loss) before taxation		(725.97)	1,264.93
Taxes on income	25	36.32	(227.28)
Net income/(loss) for the year		(689.65)	1,037.65
thereof attributable to stockholders of the parent		(675.99)	1,043.21
thereof attributable to non-controlling interests		(13.66)	(5.56)
Basic and diluted earnings/(loss) per share in RON	26	(0.0119)	0.0184

These consolidated financial statements were approved on March 23, 2017.



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The notes on pages 104 to 184 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	December 31, 2015	December 31, 2016
Net income/(loss) for the year	(689.65)	1,037.65
Exchange differences from translation of foreign operations	(6.86)	(10.44)
Unrealized gains on hedges	65.42	-
Realized gains on hedges recycled to income statement	(51.21)	(14.21)
Total of items that may be reclassified ("recycled") subsequently to the income statement	7.35	(24.65)
Remeasurement gains on defined benefit plans	34.56	15.78
Total of items that will not be reclassified ("recycled") subsequently to the income statement	34.56	15.78
Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	(29.49)	(8.33)
Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(5.53)	(2.52)
Total income tax relating to components of other comprehensive income	(35.02)	(10.85)
Other comprehensive income/(loss) for the year, net of tax	6.89	(19.72)
Total comprehensive income/(loss) for the year	(682.76)	1,017.93
thereof attributable to stockholders of the parent	(664.03)	1,025.91
thereof attributable to non-controlling interests	(18.73)	(7.98)

The notes on pages 104 to 184 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, 2016
(all amounts are expressed in million RON, unless otherwise specified)

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

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

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

Consolidated statement of changes in equity for the year ended December 31, 2015

	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, 2015	5,664.41	21,341.07	-	(72.76)	108.87	(0.02)	27,041.57	(36.29)	27,005.28
Net loss for the year	-	(675.99)	-	-	-	-	(675.99)	(13.66)	(689.65)
Other comprehensive income/(loss) for the year	-	29.03	11.94	(171.93)	142.92	-	11.96	(5.07)	6.89
Total comprehensive income/(loss) for the year	-	(646.96)	11.94	(171.93)	142.92	-	(664.03)	(18.73)	(682.76)
Dividends distribution	-	(634.41)	-	-	-	-	(634.41)	(0.09)	(634.50)
Other changes	-	0.10	-	-	(0.10)	-	-	0.01	0.01
Balance at December 31, 2015	5,664.41	20,059.80	11.94	(244.69)	251.69	(0.02)	25,743.13	(55.10)	25,688.03

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

The notes on pages 104 to 184 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2015	December 31, 2016
Cash flow from operating activities			
Profit/ (loss) before taxation		(725.97)	1,264.93
Adjustments for:			
Interest expenses and other financial expenses	23, 24	115.03	97.22
Interest income	23	(191.82)	(139.55)
Net movement in provisions and allowances for:			
- Financial assets		0.38	2.00
- Inventories and similar items		14.88	(67.63)
- Receivables		116.25	210.40
- Pensions and similar liabilities		(9.28)	1.58
- Decommissioning and restoration obligations		(44.54)	(14.32)
- Other provisions for risk and charges		(164.99)	(105.32)
Discounting / Write-off of receivables and other non-cash effects		138.00	64.85
Income from associated companies	8	(5.77)	(2.98)
Gain on disposals of financial assets		(0.01)	-
Gain on disposal of non-current assets	19, 20	(4.37)	(9.01)
Depreciation, amortization and impairment expense, net	6, 7, 21	6,761.11	3,463.68
Other non-cash items		(29.73)	(16.18)
Interest received		203.05	9.22
Interest paid		(306.93)	(72.10)
Tax on profit paid		(728.57)	(204.87)
Cash generated from operating activities before working capital movements		5,136.72	4,481.92
Decrease in inventories		230.69	8.56
(Increase)/Decrease in receivables and other assets		20.85	(62.02)
Increase/(Decrease) in liabilities		(105.36)	25.97
Net cash generated from operating activities		5,282.90	4,454.43

The notes on pages 104 to 184 form part of these consolidated financial statements.

	Notes	December 31, 2015	December 31, 2016
Cash flow from investing activities			
Investments			
Intangible assets and property, plant and equipment		(5,025.23)	(2,917.44)
Investments and other financial assets	31	(0.13)	(0.67)
Disposals			
Proceeds from sale of non-current assets		71.89	22.60
Proceeds from sale of financial assets	31	0.01	-
Net cash used for investing activities		(4,953.46)	(2,895.51)
Cash flow from financing activities			
Net repayments of borrowings	31	(163.81)	(375.29)
Dividends paid		(630.68)	(0.59)
Net cash used for financing activities		(794.49)	(375.88)
Effect of foreign exchange rate changes on cash and cash equivalents		9.63	0.40
Net increase/ (decrease) in cash and cash equivalents		(455.42)	1,183.44
Cash and cash equivalents at the beginning of the year		1,267.98	812.56
Cash and cash equivalents at the end of the year		812.56	1,996.00

The notes on pages 104 to 184 form part of these consolidated financial statements.

OMV PETROM S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION

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

Shareholders' structure as at December 31, 2016 was as follows:	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	12.57%
Legal entities and private individuals	15.78%
Total	100.00%

Shareholders' structure as at December 31, 2015 was as follows:	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	18.99%
Legal entities and private individuals	9.36%
Total	100.00%

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

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

As of December 31, 2016 the number of GDRs is 1,756,419, equivalent of 263,462,850 ordinary shares, representing 0.0047% from the share capital.

Statement of compliance

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

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

The financial year corresponds to the calendar year.

Basis of preparation

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

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Changes in estimates are accounted for prospectively.

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

Estimates and assumptions

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

a) Oil and gas reserves

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

The oil and gas assets are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2016 is shown in Notes 6 and 7.

The level of estimated commercial reserves is also a key determinant in assessing whether the

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

carrying value of any of the Group's development and production assets should be impaired.

b) Decommissioning costs

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

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

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

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

c) Impairment of non-financial assets

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

Impairment testing in Upstream

Based on management estimations regarding long term Brent oil price, production volumes and production costs, it was concluded that there are no triggering indicators for performing an impairment test for Upstream CGUs in 2016, either due to indicators of additional impairment or

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

due to indicators for a reversal of impairment.

In 2015, considering the significant decline in oil prices and increased market volatility, the Group considered that indications of impairment were present. As a result, an impairment test was performed for the Upstream CGUs of the Group as of December 31, 2015.

The nominal oil price assumptions and the RON/USD exchange rate used for impairment testing as of December 31, 2015 are listed below:

	2016	2017	2018	2019	2020 and thereafter
Brent oil price (USD/bbl)	40	55	65	70	75
RON/USD exchange rate	3.91	3.91	3.91	3.91	3.91
Brent oil price (RON/bbl)	156	215	254	274	293

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. The revised assumptions led to total impairments of RON 2,704.63 million recognized in 2015, covering mainly oil and gas production assets.

The table below summarizes the impairments, the recoverable amounts of impaired assets and the discount rates used for 2015:

	Impairment	Recoverable amount	After-tax discount rate
			RON million
Romania	2,460.67	3,710.61	7.79%
Kazakhstan	243.96	491.03	8.90%

The pre-tax discount rate used ranged from 6.81% to 12.42% as at December 31, 2015. The recoverable amounts were based on the value in use.

Impairment testing in Downstream

Based on management estimations regarding long term power market development in respect of spark spreads and net electrical output, it was concluded that there are no triggering indicators for performing an impairment test for Brazi power plant in 2016 and 2015.

2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 profit or loss in the period when the new information becomes available.

e) Recoverability of State receivable

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

Judgments

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

a) Cash generating units

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

b) Contingencies

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

3. CONSOLIDATION

a) Subsidiaries

The consolidated financial statements comprise the financial statements of OMV Petrom S.A. ("OMV Petrom") and its subsidiaries ("OMV Petrom Group") as at December 31, 2016, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2016, 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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. CONSOLIDATION (continued)

The number of consolidated entities is as follows

	Full consolidation	Equity method
As at January 1, 2016	14	1
Included for the first time	-	-
Deconsolidated during the year	(2)	-
As at December 31, 2016	12	1
Romanian companies	6	1
Foreign companies	6	-

The subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated during 2016, having an immaterial effect on the Group's financials.

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

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

Non-controlling interests are not significant as of December 31, 2016 and December 31, 2015.

b) Associates

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

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

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 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 outside operating profit (earnings before interest and taxes).

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, 2016 and 2015, the Group has joint arrangements classifying 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 34.

4. ACCOUNTING AND VALUATION PRINCIPLES

4.1. First time adoption of new or revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to the existing standards which have been adopted by the Group as of 1 January 2016, but had no significant effects on the financial statements:

▶ **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. In 2016, management did not make use of this amendment.

▶ **IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted investments.

▶ **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

▶ **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

▶ **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- ▶ The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016.

4.2. New or revised standards and interpretations not yet mandatory

At the date of authorization of these financial statements the following standards, revisions and interpretations were issued by IASB, but are not yet effective and were not early adopted by the Group:

▶ IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is currently assessing the impact of adopting IFRS 9 on the Group's financial statements. IFRS 9 is not expected to significantly change the recognition and measurement of the Group's financial assets and liabilities.

▶ IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group is currently assessing the impact of adopting IFRS 15 on the Group's consolidated financial statements. In this assessment the clarifications issued by the IASB in April 2016 are considered and any further developments are monitored. The Company plans to adopt the new standard in its financial statements for the year ending 31 December 2018, using the cumulative effect method.

▶ IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU.

► IFRS 16: Leases

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'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Group is currently assessing the impact of adopting IFRS 16 on the Group's consolidated financial statements. The most significant potential impact identified so far is that the Group might have to recognize new assets and liabilities for all or some of its operating leases, depending on the results of the analysis. In this case, in the income statement, depreciation charges and interest expense would be reported instead of lease expense. Some commitments may be covered by the exceptions for short-term and low-value leases. There is no significant impact expected on the existing finance leases.

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

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

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

The Amendments become effective for annual periods beginning on or after 1 January 2017 with

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the Group's consolidated financial statements, and it does not expect it to be significant.

► IAS 7: Disclosure Initiative (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the Group's consolidated financial statements, and it does not expect it to be significant.

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

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these amendments on the Group's consolidated financial statements, and it does not expect it to be significant.

► IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation has not yet been endorsed by the EU. The Group is currently assessing the impact of adopting this interpretation on the Group's consolidated financial statements, and it does not expect it to be significant.

The IASB has issued the **Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Group is currently assessing the impact of adopting these annual improvements on the Group's consolidated financial statements, and it does not expect it 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 recognised 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 recognised 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

impairments are immediately charged against income statement, and there are no subsequent reversals of goodwill impairment.

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

b) Pre-licence costs

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

c) Licence acquisition costs

Exploration licence acquisition costs are capitalized in intangible assets.

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

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

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

d) Exploration and evaluation costs

Exploration and evaluation costs are accounted for using the successful efforts method of accounting. Costs related to geological and geophysical activity are expensed as and when

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

e) Development and production costs

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

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

f) Intangible assets and property, plant and equipment

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

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

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

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

income statement, depreciation and amortization as well as impairment losses for filling stations are disclosed as part of selling expenses, those for exploration assets as exploration expenses, and those for other assets are reported as cost of sales or as administrative expenses.

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

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

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

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

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

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

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

Impairment of intangible assets and property, plant and equipment

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

If any indication exists, or when annual impairment test for an asset is required, the Group estimates the asset's recoverable amount, being the higher of fair value less costs of disposal and its value in use.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized to reduce the asset to its lower recoverable amount. Impairment losses are recognized in the income statement in expense categories consistent with the function of the impaired asset.

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

g) Major maintenance and repairs

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

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

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

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

h) Leases

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

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

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

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

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

After initial measurement, available-for-sale financial assets are recognized at fair value. Unrealized gains and losses are disclosed separately in other comprehensive income net of any attributable tax effects. If there is objective evidence of impairment, write-downs including amounts previously recognized in other comprehensive income, are recognized in income

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

statement. If the reason for the recognition of an impairment loss subsequently ceases to exist, the amount of the reversal up to amortized cost is included either as income in the case of debt instruments, or is taken to equity in the case of equity instruments.

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

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

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

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

Non-derivative financial liabilities

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

After initial measurement, liabilities are carried at amortized cost, with the exception of derivative financial instruments, which are recognized at fair value. Long-term liabilities are discounted using the effective interest rate method (EIR). Gains and losses are recognized in income statement when the liabilities are derecognized, as well as through the EIR amortization process.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

Derivative financial instruments

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

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

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

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

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

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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Embedded derivatives are accounted for separately from the host contract when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract.

j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized until the assets are substantially ready for their intended use or for sale. Borrowing costs include interest on bank short-term and long-term loans, amortization of ancillary costs incurred in connection with the arrangement of borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. All other costs of borrowing are expensed in the period in which they are incurred.

k) Government grants

Government grants – except for emission rights (see Note 4m) – are recognized as deferred income or deducted from the related asset where it is reasonable to expect that the granting conditions will be met and that the grants will be received.

l) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of activity less any selling expenses.

Cost of producing crude oil and gas and refined petroleum products is accounted on weighted average basis, and includes all costs incurred in the normal course of business in bringing each product to its present location and condition, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity.

Appropriate allowances are made for any obsolete or slow moving stocks based on the management's assessments.

m) Provisions

Provisions are made for all present obligations (legal or constructive) to third parties resulting from 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

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

estimated reliably. Provision for individual obligations is based on the best estimate of the amount necessary to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is applicable, the increase in the provision due to the passage of time is recognized as a finance cost.

The Group's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation obligations, more specifically consisting in:

- ▶ plugging and abandoning wells;
- ▶ cleaning of sludge pits;
- ▶ dismantlement of production facilities;
- ▶ restoration of producing areas in accordance with licence requirements and the relevant legislation.

These decommissioning and restoration obligations are mainly of material importance in the Upstream segment (oil and gas wells, above-ground facilities). At the time the obligation arises, it is provided for in full by recognizing as a liability the present value of future decommissioning and restoration expenses. An equivalent amount is capitalized as part of the carrying value of related property, plant and equipment. The obligation is calculated on the basis of best estimates. The capitalized asset is depreciated using the unit-of-production method for upstream activities and on straight-line basis for downstream assets.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Based on the privatization agreement of OMV Petrom S.A., part of OMV Petrom's decommissioning and environmental cost will be reimbursed by the Romanian State. The portion to be reimbursed by the Romanian State has been presented as receivable and reassessed in order to reflect the current best estimate of the cost at its present value, using the same discount rate as for the related provisions.

Changes in the assumptions related to decommissioning costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment (for Group obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The unwinding of the decommissioning provision is presented as part of the interest expenses

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The effect of changes in discount rate and timing assumptions for the receivables from the Romanian State, which are additional to the changes in discount rates and timing assumptions for decommissioning costs and environmental costs, is presented in the Income Statement under interest expenses or interest income.

Provisions for pensions and severance payments are calculated using the projected-unit-credit method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Actuarial gains/losses are recognized in full in the period in which they occur as follows: for pensions in other comprehensive income and for other obligations in income statement.

Provisions for voluntary and involuntary separations under restructuring programs are recognized if a detailed plan has been approved by management prior to the statement of financial position date, and an irrevocable commitment is thereby established. Voluntary amendments to employees' remuneration arrangements are recognized if the respective employees have accepted the company's offer. Provisions for obligations under individual separation agreements are recognized at the present value of the obligation where the amounts and dates of payment are fixed and determined.

Emission allowances received free of cost from governmental authorities (EU Emissions Trading Scheme for greenhouse gas emissions allowances) reduce obligations for CO₂ emissions and are recognized based on net approach for Government Grant (i.e. zero value in accounting). Provisions are recognized only for shortfalls. The provision for a shortfall is initially measured at the best estimation of expenditure required to settle the obligation, which is the market price of the emission rights at the closing date. The related expense is recognized as emission costs, included in cost of sales. If, subsequently to the recognition of a provision, emission rights are purchased, then an asset is only recognized for the excess of the emission rights over the CO₂ emissions. Any price difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

n) Taxes on income and royalties

Current tax

Current income tax is the expected tax payable or receivable on the taxable net result for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- ▶ where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ▶ where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in income statement.

Deferred tax assets and deferred tax liabilities at Group level are shown net, if there is a legally enforceable right to offset and the deferred taxes relate to matters subject to the same tax jurisdiction.

Production taxes

Royalties are based on the value of oil and gas production and are included in the income statement under cost of sales.

o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other incentives.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- ▶ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ▶ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ▶ the amount of revenue can be measured reliably;
- ▶ it is probable that the economic benefits associated with the transaction will flow to the entity;
- and
- ▶ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend revenue from investments is recognized when the shareholder's right to receive

4. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 maturities of less than three months.

5. FOREIGN CURRENCY TRANSLATION

a) Group companies

The consolidated financial statements are presented in RON, which is OMV Petrom S.A. functional currency and the Group's presentation currency. Each entity in OMV Petrom Group determines its own functional currency, and items included in its individual financial statements are measured using that functional currency. The functional currency of the foreign operations is generally their local currency (which for the majority of the Group's operations is the RON), except for Kazakhstan entities that have USD as functional currency.

Where the functional currency differs from the Group's presentation currency, individual financial statements are translated using the closing rate method. Differences arising between the statement of financial position items translated at closing and historical rates are presented as a separate item directly in equity and in other comprehensive income. The use of average rates for translation of income statement creates additional differences compared to the application of the closing rates in the statement of financial position which are also recorded in equity and in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income and equity relating to the translation of that particular foreign operation is recognized in the consolidated income statement.

The rates applied in translating foreign currencies to RON were as follows:

Exchange rates	Year ended December 31, 2015*	Average for the year ended December 31, 2015	Year ended December 31, 2016*	Average for the year ended December 31, 2016
US dollar (USD)	4.1477	4.0062	4.3033	4.0569
Euro (EUR)	4.5245	4.4446	4.5411	4.4900
Moldavian Leu (MDL)	0.2107	0.2133	0.2174	0.2036
Serbian Dinar (RSD)	0.0372	0.0368	0.0368	0.0365
Bulgarian Leva (BGN)	2.3134	2.2725	2.3218	2.2957

*) as communicated by National Bank of Romania.

b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

6. INTANGIBLE ASSETS

	Concessions, licences and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2016	1,352.02	3,088.30	4,440.32
Exchange differences	(0.17)	-	(0.17)
Additions*)	(6.69)	242.32	235.63
Transfers to tangible assets (Note 7)	(0.64)	(0.45)	(1.09)
Disposals	(2.23)	(682.95)	(685.18)
Balance as at December 31, 2016	1,342.29	2,647.22	3,989.51
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2016	1,225.81	784.49	2,010.30
Exchange differences	(0.07)	-	(0.07)
Amortization	8.57	-	8.57
Impairment	-	119.89	119.89
Disposals	(2.23)	(682.82)	(685.05)
Balance as at December 31, 2016	1,232.08	221.56	1,453.64
CARRYING AMOUNT			
As at January 1, 2016	126.21	2,303.81	2,430.02
As at December 31, 2016	110.21	2,425.66	2,535.87

*) Include the amount of RON 0.32 million representing increase from the reassessment of decommissioning asset for exploration wells (under category "Oil and gas assets with unproved reserves"), and were reduced by the amount of RON 13.09 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9), reflected under category "Concessions, licenses and other intangible assets".

7. PROPERTY, PLANT AND EQUIPMENT

	Land, land rights and buildings, incl. buildings on third-party property	Oil and gas assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
COST						
Balance as at January 1, 2016	4,528.04	3,7919.46	9,938.97	1,179.13	667.74	54,233.34
Exchange differences	(0.82)	139.03	7.32	5.78	0.71	152.02
Additions**)	47.17	2,181.78	(34.96)	14.90	347.51	2,556.40
Transfers*)	43.67	(28.38)	276.70	46.17	(337.07)	1.09
Transfers to assets held for sale	(9.94)	(265.66)	(2.37)	(5.77)	-	(283.74)
Disposals	(45.73)	(427.85)	(306.50)	(56.43)	(83.90)	(920.41)
Balance as at December 31, 2016	4,562.39	39,518.38	9,879.16	1,183.78	594.99	55,738.70
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at January 1, 2016	1,687.28	17,542.52	4,757.14	843.09	125.12	24,955.15
Exchange differences	0.19	123.93	6.83	4.43	0.16	135.54
Depreciation	178.22	2,087.65	670.67	74.67	-	3,011.21
Impairment	2.92	308.42	7.58	1.72	9.80	330.44
Transfers	0.14	(0.73)	0.62	0.06	(0.09)	-
Transfers to assets held for sale	(3.21)	(110.10)	(1.28)	(4.93)	-	(119.52)
Disposals	(34.45)	(423.16)	(298.21)	(54.54)	(82.88)	(893.24)
Write-ups	(0.22)	(1.91)	(3.09)	(1.00)	(0.21)	(6.43)
Balance as at December 31, 2016	1,830.87	19,526.62	5,140.26	863.50	51.90	27,413.15
CARRYING AMOUNT						
As at January 1, 2016	2,840.76	20,376.94	5,181.83	336.04	542.62	29,278.19
As at December 31, 2016	2,731.52	19,991.76	4,738.90	320.28	543.09	28,325.55

*) Net amount represents transfers from intangibles (Note 6).

**) Include the amount of RON 178.33 million representing increase from reassessment of the decommissioning asset and the amount of RON 13.91 million representing additions through finance lease, mainly for equipment used for production of electricity, and were reduced by the amount of RON 186.22 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9), reflected under the categories "Land, land rights and buildings, incl. buildings on third-party property" (RON 2.17 million), "Plant and machinery" (RON 183.16 million), and "Other fixtures and fittings, tools and equipment" (RON 0.89 million).

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 234.66 million as at December 31, 2016 (2015: RON 266.65 million).

Expenditure capitalized in the course of construction of tangible and intangible assets is RON 453.30 million (2015: RON 578.20 million).

For details on impairments see Note 21.

8. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2016 and December 31, 2015 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):

	2015	2016
Carrying amount of interests in individually immaterial associates	40.69	43.69
Group's share of:		
- profit from continuing operations (Note 22)	7.40	6.93
- other comprehensive income	(0.38)	0.02
- dividends during the year	(1.63)	(3.95)
Total comprehensive income	5.39	3.00

Carrying amount reconciliation for immaterial associates is as follows:

COST	Associated companies
Balance as at January 1, 2016	40.69
Additions	-
Share of net result from associates (see above)	3.00
Disposals	-
Balance as at December 31, 2016	43.69

There are no significant unrecognized commitments in relation with associates.

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

a) **Trade receivables** are amounting to RON 1,540.04 million as at December 2016 (2015: RON 1,318.28 million). They are presented net of impairment allowances, which are detailed in 9c) below.

b) **Other financial assets** (net of allowances)

	Liquidity term		
	December 31, 2016	less than 1 year	over 1 year
Derivatives financial assets	0.05	0.05	-
Investments	2.58	-	2.58
Expenditure recoverable from Romanian State	2,458.51	-	2,458.51
Other financial assets	342.86	211.02	131.84
Total	2,804.00	211.07	2,592.93

	Liquidity term		
	December 31, 2015	less than 1 year	over 1 year
Derivatives financial assets	105.16	105.16	-
Investments	3.91	-	3.91
Expenditure recoverable from Romanian State	2,571.15	9.61	2,561.54
Other financial assets	204.43	142.32	62.11
Total	2,884.65	257.09	2,627.56

Investments

The position "Investments" comprises all the investments in companies that were not consolidated, as the Group neither has control nor significant influence over their operations, or they were considered immaterial for the Group. These financial assets are accounted for at amortized cost.

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 2,130.40 million as at December 31, 2016 (2015: RON 2,330.60 million) and the environmental liabilities in Upstream and Downstream Oil with net present value of RON 328.11 million (2015: RON 240.55 million), as these were existing prior to privatization of OMV Petrom S.A.

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

In April 2016, OMV AG submitted to the Romanian State a notice of dispute regarding certain notices of claims unpaid by the Romanian State in relation to certain well decommissioning and environmental restoration obligations amounting to approximately RON 153 million. Starting with the serving of the notice of dispute, based on the Privatisation Agreement, OMV AG and the Romanian State had 180 days to amicably resolve this dispute. This deadline expired on 19 October 2016 and on 07 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.

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 in amount of RON 199.31 million (Notes 6 and 7). The present value of the financial asset as of December 31, 2016 was in amount of RON 198.80 million.

c) Valuation allowances

The movements in valuation allowances for investments were as follows:

	Year 2016
January 1, 2016	11.03
Impairment	2.00
Disposals	-
December 31, 2016	13.03

The movements in valuation allowances for trade receivables and for other financial assets were as follows:

	Valuation allowance for:		
	Trade receivables	Other financial assets	Total
January 1, 2016	265.54	538.94	804.48
Additions / (releases)	(15.15)	285.06	269.91
Used	(5.08)	(0.50)	(5.58)
Exchange differences	0.09	0.13	0.22
December 31, 2016	245.40	823.63	1,069.03

9. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

Additions related to valuation allowance for other financial assets refer mainly to reassessment of receivables considering the uncertainty regarding the expenditure recoverable from Romanian State.

The gross value of impaired trade receivables as at December 31, 2016 is of RON 252.98 million (2015: RON 270.85 million) and the gross value of impaired other financial assets amounts to RON 967.89 million (2015: RON 556.78 million).

d) The aging profile of trade receivables and other financial assets which were past due but not impaired was as follows:

Trade receivables	December 31, 2015	December 31, 2016
Up to 60 days overdue	63.01	113.51
61 to 120 days overdue	1.56	3.86
More than 120 days overdue	6.22	4.58
Total	70.79	121.95

Other financial assets	December 31, 2015	December 31, 2016
Up to 60 days overdue	1.81	0.71
61 to 120 days overdue	-	-
More than 120 days overdue	-	3.73
Total	1.81	4.44

10. OTHER ASSETS

The carrying value of other assets was as follows:

	Liquidity term		
	December 31, 2016	less than 1 year	over 1 year
Receivable from taxes	164.73	99.92	64.81
Advance payments on fixed assets	28.48	28.48	-
Prepaid expenses and deferred charges	69.66	57.61	12.05
Rental and lease prepayments	30.12	28.33	1.79
Other assets	100.77	100.54	0.23
Total	393.76	314.88	78.88

	Liquidity term		
	December 31, 2015	less than 1 year	over 1 year
Receivable from taxes	238.96	177.20	61.76
Advance payments on fixed assets	238.24	238.24	-
Prepaid expenses and deferred charges	103.75	86.01	17.74
Rental and lease prepayments	30.98	30.98	-
Other assets	95.26	94.47	0.79
Total	707.19	626.90	80.29

11. INVENTORIES

	December 31, 2015	December 31, 2016
Crude oil	471.67	361.24
Natural gas	84.67	111.61
Other materials	240.78	237.80
Work in progress	84.07	132.03
Finished products	1,083.93	1,107.33
Total	1,965.12	1,950.01

The cost of materials and goods consumed during 2016 (whether used in production or re-sold) is of RON 5,651.01 million (2015: RON 5,368.05 million).

As at December 31, 2016 and 2015 there are no inventories pledged as security for liabilities.

12. ASSETS HELD FOR SALE

	December 31, 2015	December 31, 2016
Land and buildings	30.41	32.40
Plant and equipment	66.84	221.39
Intangible assets	15.07	13.73
Other assets	1.94	1.88
Deferred tax asset (Note 18)	4.32	3.52
Assets held for sale	118.58	272.92
Provisions	(7.68)	(133.10)
Liabilities	(2.74)	(2.72)
Liabilities associated with assets held for sale	(10.42)	(135.82)

As at December 31, 2016, most of the assets and liabilities held for sale refer to:

- ▶ Downstream Gas segment in relation to the envisaged sale of the entire stake in the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park, whose value is expected to be recovered principally through a sale transaction rather than through continuing use, in line with the Company's strategy to focus on core business. As of December 31, 2016, management expects that this transaction will be closed within the following twelve months. Fair value less costs of disposal was estimated at RON 99.90 million, triggering an additional impairment loss of RON 9.83 million as of December 31, 2016;
- ▶ Upstream segment in relation to 19 marginal onshore fields reclassified as assets and liabilities held for sale following the signing of a transfer agreement by OMV Petrom S.A. with Mazarine Energy Romania S.R.L. in October 2016.

As at December 31, 2015, most of the assets and liabilities held for sale referred to Downstream Gas segment in relation to the envisaged sale of the stake in the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park. Fair value less costs of disposal were estimated at RON 108.59 million, triggering an impairment loss of RON 75.70 million as of December 31, 2015.

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, 2016 and 2015 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, 2016 and 2015. 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, 2016 and 2015. 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 314.98 million (2015: RON 248.29 million). The amount of RON 66.69 million was allocated to other reserves in 2016 representing fiscal facilities from reinvested profit.

On March 23, 2017, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.015 per share. The dividend proposal is subject to further approval by the Ordinary General Meeting of Shareholders, on April 25, 2017. At the Annual General Meeting of Shareholders held on April 26, 2016, the shareholders of OMV Petrom S.A. approved the Executive Board's proposal not to distribute dividends for the financial year 2015.

Other reserves

Other reserves contain mainly reserves from business combinations in stages, land for which land ownership certificates were obtained but was not yet included in share capital and exchange differences on loans considered net investment in a foreign operation.

Cash flow hedging reserves

In order to protect the Company's cash flows against further potential downturns of the crude oil price, OMV Petrom entered, in April 2015, into hedging arrangements (Zero Cost Collar options) for a volume of 15,000 bbl/d of crude oil, with a protection floor level of USD 55/bbl, for the third quarter of 2015 to the second quarter of 2016 period. These financial instruments were accounted as cash flow hedge.

13. STOCKHOLDERS' EQUITY (continued)

In August 2015 the Company has decided to monetize in advance the outstanding hedges for the fourth quarter of 2015 to the second quarter of 2016, by contracting offsetting positions. The hedge accounting for the options contracted in April 2015 with maturities in fourth quarter of 2015 to the second quarter of 2016 period was therefore discontinued in August 2015 and the effective part reflected in other comprehensive income as at that time remained separately in equity until the forecasted transactions occurred. The remaining cumulative gain recognised in other comprehensive income for the options with maturities in the first two quarters of 2016, net of tax, was in amount of RON 11.94 million as at December 31, 2015, and was recycled in the income statement during 2016, when maturities were reached.

14. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2016	238.72	8,304.78	1,046.50	9,590.00
thereof short-term	-	363.57	547.51	911.08
thereof long-term	238.72	7,941.21	498.99	8,678.92
Exchange differences	-	5.19	1.41	6.60
Liabilities associated with assets held for sale	-	(125.67)	-	(125.67)
Used	(9.99)	(237.18)	(175.45)	(422.62)
Allocations/(releases)	(4.18)	324.33	129.66	449.81
December 31, 2016	224.55	8,271.45	1,002.12	9,498.12
thereof short-term	-	347.99	381.28	729.27
thereof long-term	224.55	7,923.46	620.84	8,768.85

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 3.23% (2015: 3.69%), an inflation rate of 2.40% (2015: 2.10%) and an estimated average yearly salary increase of 3.30% (2015: 4.00%).

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. Interest rates applied for calculating of decommissioning and restoration costs are between 0.00% and 1.97% (2015: between 0.07% and 3.00%).

The provision for decommissioning and restoration costs includes mainly obligations in respect of OMV Petrom S.A. amounting to RON 8,112.84 million (2015: RON 8,161.65 million). There is a corresponding receivable from the Romanian State of RON 2,130.40 million (2015: RON 2,330.60 million), which is disclosed under "Other financial assets" (Note 9b).

Revisions in estimates for decommissioning and restoration provisions arise from the yearly reassessment of the cost of work done, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration and revision of estimated interest rates.

14. PROVISIONS (continued)

Details on the Decommissioning and restoration obligations are as follows:

	2015	2016
January 1	7,546.29	8,304.78
Exchange differences	14.11	5.19
Revisions in estimates	726.76	30.87
Unwinding effect	285.04	293.46
Used in current year	(261.96)	(237.18)
Transfer to liabilities associated with assets held for sale	(5.46)	(125.67)
December 31	8,304.78	8,271.45

The revisions in estimates impact either the assets subject to decommissioning or the related receivable from State. The unwinding effect is included in the income statement under the interest expenses line (Note 23) net of the unwinding effect on the related receivable from State. The effect of changes in discount rate or timing of the receivable from State (which are additional to the changes in discount rate or timing of the decommissioning costs) is included in the income statement under interest expenses or interest income.

Impact from revision in estimates in 2015 was generated mainly by higher estimated decommissioning costs for onshore wells in Romania.

Other provisions were as follows:

December 31, 2016	Total	less than 1 year	over 1 year
Environmental provision	376.99	64.66	312.33
Other personnel provisions	178.21	175.80	2.41
Provisions for litigations	319.07	13.43	305.64
Other	127.85	127.39	0.46
Total	1,002.12	381.28	620.84

December 31, 2015	Total	less than 1 year	over 1 year
Environmental provision	212.86	99.36	113.50
Other personnel provisions	174.74	172.26	2.48
Provisions for litigations	521.34	139.62	381.72
Other	137.56	136.27	1.29
Total	1,046.50	547.51	498.99

14. PROVISIONS (continued)

Environmental provisions

The environmental provisions were estimated by the management based on the list of environment related projects that must be completed by OMV Petrom Group. Provisions recorded as at December 31, 2016 and 2015 represent the best estimate of the Group's experts for environmental matters. Environmental provisions are computed using the same interest rates as for the decommissioning and restoration provisions.

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

During 2016, OMV Petrom S.A. set-up additional environmental provision for decontamination of land plots pertaining to certain former Downstream Oil storage facilities.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by OMV Petrom S.A. further to approved restructuring plan that has been communicated to those affected by it.

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.

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 2,277,940 emission certificates for year 2016 (2015: 2,281,635 emission certificates). During 2016, the Company received 2,608,152 emission certificates, out of which 1,651,062 emission certificates representing the 2015 entitlement, according to art. 10c) of the Directive, and 957,090 emission certificates from 2016 entitlement, according to art. 10a) of the Directive.

During 2016 the Company had net sales of 1,480,706 emissions certificates (2015: 913,567 emissions certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2016, the Company was not short of certificates.

15. INTEREST-BEARING DEBTS

As at December 31, 2016 and December 31, 2015 OMV Petrom Group had the following loans:

Borrower	Lender	December 31, 2015	December 31, 2016
Interest-bearing debts short-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	95.92	96.27
OMV Petrom S.A.	European Investment Bank (b)	86.18	86.50
OMV Petrom S.A.	OMV Petrom Global Solutions S.R.L. (c)	127.96	95.21
Kom Munai LLP.	European Bank for Reconstruction and Development (d)	61.35	127.31
	Accrued interest	8.77	7.17
	Prepayments in relation with loan amounts drawn	(1.46)	(2.84)
Total interest bearing debts short-term		378.72	409.62

Borrower	Lender	December 31, 2015	December 31, 2016
Interest-bearing debts long-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	377.34	282.46
OMV Petrom S.A.	European Investment Bank (b)	532.17	447.62
Kom Munai LLP.	European Bank for Reconstruction and Development (d)	527.62	420.11
	Prepayments in relation with loan amounts drawn	(13.43)	(9.49)
Total interest-bearing debts long-term		1,423.70	1,140.70
thereof maturing after more than 1 year but not later than 5 years		1,163.80	1,014.15
thereof maturing after 5 years		259.90	126.55
Total interest-bearing debts		1,802.42	1,550.32

(a) For the construction of Brazi Power Plant, OMV Petrom S.A. concluded an unsecured corporate loan agreement with European Bank for Reconstruction and Development for a maximum amount of EUR 200.00 million. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The outstanding amount as at December 31, 2016 was RON 378.73 million (equivalent of EUR 83.40 million) (2015: RON 473.26 million, equivalent of EUR 104.60 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, 2016 was RON 534.12 million (equivalent of EUR 117.62 million) (2015: RON 618.35 million, equivalent of EUR 136.67 million).

(c) A cash pooling agreement with maturity on April 22, 2017, renewable each year, was signed

15. INTEREST-BEARING DEBTS (continued)

between OMV Petrom S.A. and OMV Petrom Global Solutions S.R.L. on April 25, 2014. The aggregated amount of the loan is RON 180.00 million (2015: RON 155.00 million), usable in RON or any other currency EUR, USD and GBP. Amount drawn by the Group as at December 31, 2016 was RON 95.21 million (2015: RON 127.96 million).

- (d) On September 25, 2014 an unsecured loan agreement was concluded between European Bank for Reconstruction and Development and Kom-Munai LLP with a limit of USD 200.00 million and the final maturity date May 20, 2022. On December 18, 2015 the limit was decreased to USD 142.00 million, consisting of:
- ▶ tranche 1 with a maximum limit of USD 120.00 million, to be used for refinancing of intra-group loans;
 - ▶ tranche 2 with a maximum limit of USD 22.00 million, to be used for future capital expenditures.

The outstanding amount as at December 31, 2016 was of RON 547.42 million (equivalent of USD 127.21 million) (2015: RON 588.97 million, equivalent of USD 142.00 million).

The OMV Petrom Group's companies have several credit facilities signed as at December 31, 2016 as follows:

- (e) An unsecured credit facility granted by Raiffeisen Bank S.A. up to EUR 55.00 million (2015: EUR 105.00 million) consisting in two subfacilities: subfacility A with maturity date prolonged to December 31, 2017 (for an amount of EUR 35.00 million) and subfacility B with maturity date prolonged to December 15, 2019 (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, 2016 and 2015.
- (f) An unsecured Banks Consortium revolving facility amounting to EUR 1,000.00 million was contracted on May 20, 2015 with 5 years maturity and with the possibility of extension for another 2 years. First extension by one year was done in March 2016, the current maturity being May 20, 2021. The Banks Consortium includes BRD - Groupe Société Générale S.A.; UniCredit Bank Austria AG; UniCredit Tirioc Bank S.A. (Romania); ING Bank N.V. Amsterdam, Bucharest Branch; Erste Group Bank AG; Banca Comerciala Romana S.A.; Intesa Sanpaolo S.p.A., Frankfurt Branch; Banca Comerciala Intesa Sanpaolo Romania S.A.; Mizuho Bank Europe N.V. (formerly known as Mizuho Bank Nederland N.V. and Mizuho Corporate Bank Nederland N.V.); Raiffeisen Bank International AG; Raiffeisen Bank S.A.; BNP Paribas 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

15. INTEREST-BEARING DEBTS (continued)

S.A.; OTP Bank Romania S.A.; KDB Bank Europe Ltd. There are no drawings from this facility as at December 31, 2016 and 2015.

- (g) An unsecured facility contracted by OMV Petrom S.A. from ING Bank N.V., that can be used in USD, RON or EUR, up to the maximum amount of EUR 70.00 million (equivalent of RON 317.88 million), for issuance of letters of bank guarantee and as overdraft for working capital financing. The maturity for letters of bank guarantee was prolonged until November 20, 2020 and for overdraft until November 22, 2017. No drawings under the overdraft were made as at December 31, 2016 and 2015.
- (h) An uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. with maximum limit of EUR 60.00 million (equivalent of RON 272.47 million) (2015: EUR 120.00 million, equivalent of RON 542.94 million) that can be used in RON, with maturity date prolonged until April 30, 2017. The facility is designated to finance OMV Petrom's current activity and for issuance of letters of guarantee and letters of credit. No drawings under the facility were made as at December 31, 2016 and 2015.
- (i) A committed and unsecured credit facility contracted by OMV Petrom S.A. from Banca Comerciala Romana S.A., that can be used in USD, EUR or RON, up to a maximum amount of EUR 200.00 million (equivalent of RON 908.22 million), for issuance of letters of bank guarantee and similar and as overdraft for working capital financing. The maturity for letters of bank guarantee and similar is January 14, 2018 and for overdraft the maturity was prolonged from January 14, 2017 to January 11, 2019. No drawings for overdraft purposes were made as at December 31, 2016 and 2015.
- (j) An unsecured revolving facility contracted by OMV Srbija from Raiffeisen Banka a.d. Belgrad, with a maximum limit of EUR 4.00 million (equivalent of RON 18.16 million) and maturity prolonged until March 02, 2017. This facility was subsequently prolonged until March 02, 2018. The destination of the facility is for general corporate purposes. No drawings were made under the revolving facility as at December 31, 2016 and 2015.
- (k) 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 22.08 million) (2015: RSD 350.00 million, equivalent of RON 13.02 million) and maturity date prolonged until March 31, 2017. The destination of the facility is for general corporate purposes financing. No drawings were made under the overdraft facility as at December 31, 2016 and 2015.
- (l) A credit facility contracted on October 02, 2014 by Tasbulat Oil Corporation LLP and Kom-Munai LLP as Borrowers from JSK Citibank Kazakhstan, accessible to both companies up to the maximum limit of USD 15.00 million (equivalent of RON 64.55 million) and maturity date prolonged to July 31, 2017 with further extension possibility for successive periods of 12 (twelve) months, but for no more than a total 5 (five) years from the date of the agreement i.e. until October 02, 2019. The purpose of the facility is for general corporate needs, working capital

15. INTEREST-BEARING DEBTS (continued)

financing, letters of credit and letters of bank guarantee. The credit facility was not used as at December 31, 2016 and 2015.

- (m) An unsecured facility contracted by OMV Bulgaria OOD from Raiffeisenbank Bulgaria EAD, with a maximum limit of BGN 13.225 million (equivalent of RON 30.71 million) (2015: BGN 6.85 million, equivalent of RON 15.85 million) and maturity date January 30, 2017. This facility was subsequently prolonged until January 29, 2018 and supplemented up to a maximum limit of BGN 9.97 million. The destination of the facility is financing current operational activities and issuance of letters of bank guarantee. There were no drawings under the overdraft facility as at December 31, 2016 and 2015.

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

- (n) An unsecured facility agreement was signed by OMV Petrom S.A. with BNP Paribas Fortis Bank S.A./N.V. – Bucharest branch – for up to EUR 30.00 million (equivalent of RON 136.23 million), to be utilized only for issuance of letters of bank guarantee and letters of credit, with maturity date prolonged to March 27, 2017.
- (o) An unsecured credit facility up to EUR 30.00 million (equivalent of RON 136.23 million) obtained by OMV Petrom S.A. from BRD – Groupe Société Générale S.A., to be utilized only for issuance of letters of credit, endorsement of promissory notes and issuance of letters of bank guarantee. The validity period for the credit facility was prolonged to April 30, 2017.
- (p) An unsecured credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 113.53 million), to be utilized only for issuance of letters of bank guarantee, with maturity extended until March 31, 2020.
- (q) 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 9.08 million) and maturity date extended until January 12, 2018. The destination of the facility is the issuance of letters of bank guarantee and letters of credit.

As at December 31, 2016, OMV Petrom Group is in compliance with all financial covenants stipulated by the loan agreements.

Please refer also to Note 35 for details regarding interest rate risks of interest-bearing debt.

16. OTHER FINANCIAL LIABILITIES

	December 31, 2016	less than 1 year	over 1 year
Finance lease liabilities	209.09	45.51	163.58
Financial liabilities in connection with joint operations	3.27	3.27	-
Derivatives financial liabilities	9.41	9.41	-
Other financial liabilities	175.77	162.10	13.67
Total	397.54	220.29	177.25
	December 31, 2015	less than 1 year	over 1 year
Finance lease liabilities	296.34	44.92	251.42
Financial liabilities in connection with joint operations	227.34	227.34	-
Derivatives financial liabilities	102.05	102.05	-
Other financial liabilities	188.66	173.82	14.84
Total	814.39	548.13	266.26

Finance lease liabilities

As of December 31, 2016, OMV Petrom Group had finance leases mainly in relation with equipment for production of electricity (Upstream segment) and a hydrogen and medium pressure steam production plant for Petrobrazil Refinery in OMV Petrom (Downstream Oil segment).

The finance lease contract regarding the pipe yards facilities for tubing reconditioning in Upstream, concluded in the year 2013 for a 15 year period, was terminated earlier, during 2016, and, as a consequence, OMV Petrom made a down payment to the lessor amounting to RON 60.26 million (equivalent of EUR 13.54 million).

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 146.97 million as at December 31, 2016 (2015: RON 158.68 million).

16. OTHER FINANCIAL LIABILITIES (continued)

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

	December 31, 2015	December 31, 2016
Obligations under finance leases		
Amounts due within 1 year	65.07	54.09
Amounts due after more than 1 year but not later than 5 years	153.51	97.40
Amounts due after 5 years	195.19	128.41
Total lease obligations	413.77	279.90
Less future finance charges on finance leases	(117.43)	(70.81)
Present value of finance lease liabilities	296.34	209.09
Analyzed as follows:		
Maturing within 1 year	44.92	45.51
Maturing after more than 1 year but not later than 5 years	111.19	74.19
Maturing after 5 years	140.23	89.39

Maturity profile of financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows (i.e. also including future finance charges):

	< 1 year	1-5 years	> 5 years	Total
December 31, 2016				
Interest-bearing debts	441.69	1,104.51	102.98	1,649.18
Trade payables	2,289.75	-	-	2,289.75
Other financial liabilities	228.86	108.20	131.28	468.34
Total	2,960.30	1,212.71	234.26	4,407.27
December 31, 2015	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	413.88	1,262.29	267.09	1,943.26
Trade payables	2,317.81	-	-	2,317.81
Other financial liabilities	568.30	168.37	197.72	934.39
Total	3,299.99	1,430.66	464.81	5,195.46

17. OTHER LIABILITIES

	December 31, 2016	less than 1 year	over 1 year
Tax liabilities	460.94	460.94	-
Deferred income	109.74	109.74	-
Social security	44.72	44.72	-
Other liabilities	90.40	90.40	-
Total	705.80	705.80	-
	December 31, 2015	less than 1 year	over 1 year
Tax liabilities	487.48	487.48	-
Deferred income	84.66	84.66	-
Social security	47.03	47.03	-
Other liabilities	156.10	156.10	-
Total	775.27	775.27	-

18. DEFERRED TAX

December 31, 2016	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	291.56	(44.96)	246.60	20.21
Financial assets	105.89	-	105.89	6.54
Inventories	31.33	(0.20)	31.13	-
Receivables and other assets	79.51	(41.89)	37.62	-
Untaxed reserves	-	-	-	1.25
Provisions for pensions and severance payments	40.75	-	40.75	4.82
Other provisions	1,115.31	(19.44)	1,095.87	-
Liabilities	14.18	(2.10)	12.08	-
Tax loss carried forward	15.15	-	15.15	-
Total	1,693.68	(108.59)	1,585.09	32.82
Netting (same tax jurisdiction/country)			(32.82)	(32.82)
Total deferred tax, net			1,552.27	-
Deferred tax for assets and related liabilities held for sale (Note 12)	3.52	-	3.52	-

December 31, 2015	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	317.02	(49.10)	267.92	21.86
Financial assets	100.20	-	100.20	7.15
Inventories	40.43	(0.70)	39.73	-
Receivables and other assets	93.38	(42.29)	51.09	-
Untaxed reserves	-	-	-	5.56
Provisions for pensions and severance payments	40.46	-	40.46	2.26
Other provisions	1,107.43	(19.48)	1,087.95	-
Liabilities	10.10	(1.35)	8.75	11.53
Tax loss carried forward	2.42	-	2.42	-
Total	1,711.44	(112.92)	1,598.52	48.36
Netting (same tax jurisdiction/country)			(35.64)	(35.64)
Total deferred tax, net			1,562.88	12.72
Deferred tax for assets and related liabilities held for sale (Note 12)	4.32	-	4.32	-

18. DEFERRED TAX (continued)

As at December 31, 2016, losses carry-forward for tax purposes amounted to RON 334.69 million (2015: RON 247.09 million). Eligibility of losses for carry-forward expires as follows:

	2015	2016
2016	9.15	-
2017	5.31	4.66
2018	2.39	2.07
2019	48.10	66.17
2020	-	21.52
2021 / After 2020	182.14	6.09
After 2021	-	234.18
Total	247.09	334.69

No deferred tax asset was recognized for part of tax losses carry-forward included in the above table, in amount of RON 192.97 million (2015: RON 172.37 million).

19. OTHER OPERATING INCOME

	December 31, 2015	December 31, 2016
Exchange gains from operating activities	147.70	84.47
Gains on disposal of non-current assets	25.05	24.95
Write-up tangible and intangible assets	13.34	6.43
Other operating income	315.36	372.29
Total	501.45	488.14

20. OTHER OPERATING EXPENSES

	December 31, 2015	December 31, 2016
Exchange losses from operating activities	209.34	112.91
Losses on disposal of non-current assets	20.68	15.94
Net income from provisions for litigations	(61.45)	(77.66)
Other operating expenses	523.35	644.48
Total	691.92	695.67

Other operating expenses include an amount of RON 92.27 million (2015: RON 73.08 million) representing restructuring expenses.

The increase in "Other operating expenses" line refers mainly to the valuation allowance for other financial assets considering the uncertainty regarding the expenditure recoverable from Romanian State (Note 9c).

21. COST INFORMATION

For the years ended December 31, 2016 and December 31, 2015 the consolidated income statement includes the following personnel expenses:

	December 31, 2015	December 31, 2016
Wages and salaries	2,011.80	1,769.79
Other personnel expenses	126.56	140.54
Total personnel expenses	2,138.36	1,910.33

Included in the above personnel expenses is the amount of RON 233.25 million, representing Group's contribution to state pension plan for the year ended December 31, 2016 (2015: RON 262.74 million).

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

	December 31, 2015	December 31, 2016
Depreciation and amortization	3,136.09	3,019.78
Net impairment intangible assets and property, plant and equipment	3,625.02	443.90
Total depreciation, amortization and net impairment	6,761.11	3,463.68

21. COST INFORMATION (continued)

Net impairment losses booked during the year ended December 31, 2016 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 440.46 million (including mainly impairments for replaced assets, unsuccessful workovers and exploration assets in Romania), and to other segments amounting to RON 3.44 million.

Net impairment losses booked during the year ended December 31, 2015 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 3,523.60 million (including mainly impairments for Upstream production assets of OMV Petrom S.A., impairments for replaced assets, unsuccessful workovers and exploration wells in Romania, impairment of Kazakhstan assets), to Downstream Gas amounting to RON 79.19 million (mainly related to Dorobantu wind power park in Romania), to Downstream Oil amounting to RON 21.97 million and also to Corporate & Other segment RON 0.26 million.

In the consolidated income statement the impairment losses are included under cost of sales amounting RON 279.56 million (2015: RON 3,218.91 million), exploration expenses of RON 165.85 million (2015: RON 408.40 million), selling expenses of RON 2.39 million (2015: RON 10.79 million) and administrative expenses of RON 2.53 million (2015: RON 0.26 million). These impairment losses are netted of with write-ups amounting to RON 6.43 million (2015: RON 13.34 million).

Rental expenses included in current period consolidated income statement are RON 203.47 million (2015: RON 191.41 million).

22. INCOME FROM ASSOCIATED COMPANIES

	December 31, 2015	December 31, 2016
Share of net result of associated companies	7.40	6.93
Total income from associated companies	7.40	6.93

23. INTEREST INCOME AND INTEREST EXPENSES

	December 31, 2015	December 31, 2016
Interest income		
Interest income from receivables and other	188.51	136.11
Interest income from short term bank deposits	3.31	3.44
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivable	43.00	33.23
Total interest income	234.82	172.78
Interest expenses		
Interest expenses	(86.30)	(73.23)
Unwinding expenses for retirement benefits provision	(10.52)	(8.81)
Unwinding expenses for decommissioning provision, net of the unwinding income for related State receivable	(217.72)	(224.38)
Unwinding and discounting for other items and negative effect of changes in discount rate and timing for State receivables	(116.45)	(50.82)
Total interest expenses	(430.99)	(357.24)
Net interest result	(196.17)	(184.46)

24. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2015	December 31, 2016
Financial income		
Exchange gains from financing activities	99.90	33.13
Gains from investments and financial assets	1.22	0.83
Total financial income	101.12	33.96
Financial expense		
Exchange losses from financing activities	(77.99)	(34.28)
Losses from financial assets and securities	(1.85)	(2.50)
Other financial expenses	(28.73)	(23.99)
Total financial expense	(108.57)	(60.77)
Other financial income and expenses	(7.45)	(26.81)

25. TAXES ON INCOME

	December 31, 2015	December 31, 2016
Tax on income - current year	(475.95)	(228.55)
Deferred tax revenue	512.27	1.27
Total taxes on income-revenue/(expense)	36.32	(227.28)

The reconciliation of net deferred tax is as follows:

	2015	2016
Deferred tax, net January 1	1,047.78	1,554.48
Deferred tax, net December 31	1,554.48	1,555.79
Changes in deferred taxes	506.70	1.31
thereof deferred tax (expense)/revenues in Other Comprehensive Income	(5.57)	0.04
thereof deferred tax revenues in the Income Statement	512.27	1.27
Reconciliation		
Profit/(loss) before taxation	(725.97)	1,264.93
Income tax rate applicable for Parent company	16.00%	16.00%
Profit tax (expense)/ revenue based on income tax rate of the Parent	116.16	(202.39)
Effect of differing foreign tax rates	20.87	8.78
Profit tax (expense)/ revenue based on applicable rates	137.03	(193.61)
Tax effect of items that are non-deductible / non-taxable	(100.71)	(33.67)
Profit tax (expense)/ revenue in the Income Statement	36.32	(227.28)

Main amount included under items that are non-deductible / non-taxable in 2015 relates to the steep devaluation of Kazakhstan tenge versus US dollar between December 31, 2014 and December 31, 2015, which affected the tax expense of Kazakhstan subsidiaries.

26. EARNINGS PER SHARE

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

	December 31, 2015	December 31, 2016
Net profit/(loss) attributable to stockholders of the parent	(675.99)	1,043.21
Weighted average number of shares	56,643,903,559	56,643,903,559
Earnings/(loss) per share in RON	(0.0119)	0.0184

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

27. SEGMENT INFORMATION

OMV Petrom Group is organized into three operating business segments: Upstream (former Exploration and Production / E&P), Downstream Gas (former Gas and Power / G&P) and Downstream Oil (former Refining and Marketing / R&M), while management, financing activities and certain service functions are concentrated in the Corporate & Other segment.

OMV Petrom Group's involvement in the oil and gas industry, by its nature, exposes it to certain risks. These include political stability, economic conditions, changes in legislation or fiscal regimes, as well as other operating risks inherent in the industry such as the high volatility of crude prices and of the US dollar. A variety of measures are used to manage these risks.

Apart from the integration of OMV Petrom Group's upstream and downstream operations, and the policy of maintaining a balanced portfolio of assets in the Upstream segment, the main instruments used are operational in nature. There is a Group-wide environmental risk reporting system in operation, designed to identify existing and potential obligations and to enable timely action to be taken. Insurance and taxation are also dealt with on a Group-wide basis. Regular surveys are undertaken across OMV Petrom Group to identify current litigation and pending court and administrative proceedings.

Business decisions of fundamental importance are made by the Executive Board of OMV Petrom S.A. The business segments are independently managed, as each represents a strategic unit with different products and markets.

Upstream activities consist of exploration, development and production of crude oil and natural gas and are focused on Romania and Kazakhstan. Upstream products consisting of crude oil and natural gas are sold mainly inside of OMV Petrom Group.

27. SEGMENT INFORMATION (continued)

Gas business unit, part of Downstream Gas segment, has the objective to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization. Business division **Power**, part of Downstream Gas segment, mainly extends the gas value chain into a gas-fired power plant.

Downstream Oil produces and delivers gasoline, diesel and other petroleum products to its customers. **Refining** division, part of Downstream Oil segment, operates one Romanian refinery, Petrobrazi.

Marketing division, part of Downstream Oil segment, delivers products to both Retail and Wholesale customers and operates in Romania, Bulgaria, Serbia and Republic of Moldova. OMV Petrom S.A. is the main player on the Romanian fuels market.

The key figure of operating performance for OMV Petrom Group is earnings before interest and tax (EBIT). 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, 2016	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	6,866.90	253.03	292.87	76.18	(116.02)	169.37	7,289.30	(7,289.30)	-
Sales with third parties	436.01	15,773.11	4,118.10	11,655.01	-	37.80	16,246.92	-	16,246.92
Total sales	7,302.91	16,026.14	4,410.97	11,731.19	(116.02)	207.17	23,536.22	(7,289.30)	16,246.92
EBIT	400.99	1,292.90	3.45	1,289.45	-	(71.83)	1,622.06	(152.79)	1,469.27
Total assets**	23,690.47	6,689.54	1,471.75	5,217.79	-	481.41	30,861.42	-	30,861.42
Additions in PPE/IA***	2,530.50	258.40	(186.25)	444.65	-	3.13	2,792.03	-	2,792.03
Depreciation and amortization	2,252.39	744.09	118.55	625.54	-	23.30	3,019.78	-	3,019.78
Impairment losses (net)	440.46	0.91	(0.74)	1.65	-	2.53	443.90	-	443.90

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA), property, plant and equipment (PPE).

***) Additions in Downstream Gas were reduced by the amount of RON 199.31 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9).

27. SEGMENT INFORMATION (continued)

Information about geographical areas:

December 31, 2016	Romania	Rest of CEE	Rest of world	Consolidated total
Sales with third parties**	13,460.74	2,770.94	15.24	16,246.92
Total assets*	29,706.28	679.63	475.51	30,861.42
Additions in PPE/IA	2,737.66	31.39	22.98	2,792.03

*) Intangible assets (IA), property, plant and equipment (PPE).

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

Sales with third parties made in Rest of CEE (Central Eastern Europe) include sales made in Bulgaria amounting to RON 1,361.22 million in 2016.

Operating segments:

December 31, 2015	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	8,297.17	305.63	330.54	98.37	(123.28)	195.05	8,797.85	(8,797.85)	-
Sales with third parties	681.75	17,429.38	4,205.62	13,223.76	-	33.85	18,144.98	-	18,144.98
Total sales	8,978.92	17,735.01	4,536.16	13,322.13	(123.28)	228.90	26,942.83	(8,797.85)	18,144.98
EBIT	(1,814.60)	1,013.65	(216.05)	1,229.70	-	(74.67)	(875.62)	345.87	(529.75)
Total assets**	24,003.63	7,197.07	1,776.56	5,420.51	-	507.51	31,708.21	-	31,708.21
Additions in PPE/IA	4,190.02	407.59	9.15	398.44	-	8.20	4,605.81	-	4,605.81
Depreciation and amortization	2,389.93	722.30	133.29	589.01	-	23.86	3,136.09	-	3,136.09
Impairment losses (net)	3,523.60	101.16	79.19	21.97	-	0.26	3,625.02	-	3,625.02

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA), property, plant and equipment (PPE).

Information about geographical areas:

December 31, 2015	Romania	Rest of CEE	Rest of world	Consolidated total
Sales with third parties**	14,800.60	3,324.32	20.06	18,144.98
Total assets*	30,522.52	699.73	485.96	31,708.21
Additions in PPE/IA	4,540.95	32.77	32.09	4,605.81

*) Intangible assets (IA), property, plant and equipment (PPE).

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

Sales with third parties made in Rest of CEE (Central Eastern Europe) include sales made in Bulgaria amounting to RON 1,569.05 million in 2015.

28. AVERAGE NUMBER OF EMPLOYEES

	December 31, 2015	December 31, 2016
Total OMV Petrom Group	16,579	15,288
thereof:		
OMV Petrom S.A.	15,581	14,380
Subsidiaries	998	908

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

29. RELATED PARTIES

The terms of the outstanding balances receivable from/payable to related parties are typically 0 to 90 days. The balances are unsecured and will be settled in cash. There are no significant provisions for doubtful debts relating to these balances and no significant expense recognized in the consolidated income statement in respect of bad or doubtful debts. There are no guarantees given or paid to related parties as at December 31, 2016 and December 31, 2015. Dividends receivable are not included in the below balances and revenues.

29. RELATED PARTIES (continued)

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

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Acquisition of petroleum products	399.26	28.29
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	371.25	75.31
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	90.89	28.10
OMV Exploration & Production GmbH	Delegation of personnel and other	52.01	13.16
OMV Aktiengesellschaft	Delegation of personnel and other	33.92	20.71
OMV Trading GmbH	Services and other	7.39	2.87
OMV International Oil & Gas GmbH	Delegation of personnel and other	1.45	0.82
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.05	0.88
OMV Gas & Power GmbH	Delegation of personnel and other	0.17	0.63
OMV Austria Exploration & Production GmbH	Various services	0.70	-
Total OMV Petrom S.A.		958.09	170.77

	Nature of transaction	Purchases	Balances payable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	72.10	16.79
OMV Refining & Marketing GmbH	Acquisition of petroleum products & services	37.27	12.16
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	13.63	0.89
OMV Exploration & Production GmbH	Delegation of personnel and other	5.92	1.10
OMV International Services GmbH	Financial services	5.75	37.48
EconGas GmbH	Acquisition of gas	5.67	-
Petrol Ofisi A.Ş.	Acquisition of petroleum products	4.52	0.52
Petrom Nădlac S.R.L.	Various services	3.37	-
Borealis AG	Various services	1.70	0.32
OMV Aktiengesellschaft	Delegation of personnel and other	1.13	0.12
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.88	0.12
Total subsidiaries		151.94	69.50
Total OMV Petrom Group		1,110.03	240.27

29. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Ltd	Sales of petroleum products	648.79	66.49
OMV Deutschland GmbH	Sales of propylene	178.05	30.16
OMV Trading GmbH	Services and other	63.14	-
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	61.56	20.49
OMV Petrom Global Solutions S.R.L.	Various services	23.76	3.62
OMV Exploration & Production GmbH	Delegation of personnel and other	17.57	3.10
OMV Aktiengesellschaft	Delegation of personnel and other	11.89	2.76
OMV Gas & Power GmbH	Delegation of personnel and other	1.10	-
Trans Gas LPG Services S.R.L.	Various services	0.11	0.03
Borealis AG	Various services	0.02	-
OMV Supply & Trading AG	Sales of petroleum products	-	0.67
Petrom Nădlac S.R.L.	Various services	-	0.01
Total OMV Petrom S.A.		1,005.99	127.33

	Nature of transaction	Revenues	Balances receivable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Various services	1.78	0.03
OMV International Services GmbH	Other services	1.08	20.80
OMV Refining & Marketing GmbH	Delegation of personnel and other	0.89	0.02
OMV Aktiengesellschaft	Delegation of personnel and other	0.45	-
OMV Petrol Ofisi A.Ş.	Various services	0.22	-
Borealis AG	Various services	0.09	-
OMV Offshore Bulgaria GmbH	Various services	0.06	0.01
Trans Gas LPG Services S.R.L.	Various services	0.02	-
Total subsidiaries		4.59	20.86
Total OMV Petrom Group		1,010.58	148.19

29. RELATED PARTIES (continued)

During 2016, OMV Petrom Group had the following interest income and interest expenses with related parties (including balances as of December 31, 2016 for interest payable and interest receivable):

	Interest expense	Balances interest payable
OMV Petrom S.A. - parent company		
OMV Petrom Global Solutions S.R.L.	0.77	0.06
Total OMV Petrom S.A.	0.77	0.06
Total OMV Petrom Group	0.77	0.06

	Interest income	Balances interest receivable
OMV Petrom S.A. - parent company		
Petrom Nădlac S.R.L.	0.04	-
Energy Production Enhancement S.R.L.	0.00	0.00
Total OMV Petrom S.A.	0.04	0.00
Total OMV Petrom Group	0.04	0.00

29. RELATED PARTIES (continued)

During 2015, OMV Petrom Group had the following transactions with related parties (including balances as of December 31, 2015):

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - parent company			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	416.99	25.26
OMV Supply & Trading Limited	Acquisition of petroleum products	235.06	0.84
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	147.66	35.06
OMV International Oil & Gas GmbH	Delegation of personnel and other	76.16	5.80
OMV Exploration & Production GmbH	Delegation of personnel and other	66.37	15.33
OMV Trading GmbH	Services and other	51.85	7.99
OMV Aktiengesellschaft	Delegation of personnel and other	21.99	7.86
OMV Gas & Power GmbH	Delegation of personnel and other	2.17	5.16
OMV Supply & Trading AG	Various services	0.82	-
OMV Austria Exploration & Production GmbH	Various services	0.78	0.25
OMV Deutschland GmbH	Various services	0.35	-
OMV Samsun Elektrik Üretim Sanayi ve Ticaret A.Ş.	Delegation of personnel and other	0.26	-
OMV Solutions GmbH	Delegation of personnel and other	0.09	0.09
OMV International Services GmbH	Various services	0.01	-
Total OMV Petrom S.A.		1,020.56	103.64

29. RELATED PARTIES (continued)

	Nature of transaction	Purchases	Balances payable
OMV Petrom Group subsidiaries			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	75.31	5.94
OMV Refining & Marketing GmbH	Acquisition of petroleum products	63.82	19.82
OMV Exploration & Production GmbH	Delegation of personnel and other	12.83	2.40
EconGas Hungária Földgázkereskedelmi Kft.	Acquisition of gas	10.23	-
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	10.14	0.33
EconGas GmbH	Acquisition of gas	6.30	-
OMV International Services GmbH	Financial services	5.43	31.65
Borealis AG	Various services	1.15	0.29
OMV Aktiengesellschaft	Delegation of personnel and other	1.11	0.32
OMV International Oil & Gas GmbH	Delegation of personnel and other	0.67	0.12
Petrom Nădlac S.R.L.	Various services	0.56	0.01
OMV Gas & Power GmbH	Various services	-	0.06
Total subsidiaries		187.55	60.94
Total OMV Petrom Group		1,208.11	164.58

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - parent company			
OMV Supply & Trading Limited	Sales of petroleum products	957.41	12.37
OMV Deutschland GmbH	Sales of propylene	228.89	22.15
OMV Trading GmbH	Services and other	67.79	2.92
OMV Supply & Trading AG	Sales of petroleum products	59.98	0.65
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	34.20	1.64
OMV Petrom Global Solutions S.R.L.	Various services	27.99	2.81
OMV Exploration & Production GmbH	Delegation of personnel and other	27.81	4.51
OMV Aktiengesellschaft	Delegation of personnel and other	23.85	2.85
OMV Solutions GmbH	Delegation of personnel	3.71	-
OMV Gas & Power GmbH	Delegation of personnel and other	0.40	0.04
Petrol Ofisi A.Ş.	Various services	0.35	0.02
Trans Gas LPG Services S.R.L.	Various services	0.11	0.04
Petrom Nădlac S.R.L.	Various services	0.01	0.01
Borealis AG	Various services	0.01	-
Total OMV Petrom S.A.		1,432.51	50.01

29. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Delegation of personnel and other	3.55	0.14
OMV International Services GmbH	Other services	2.78	14.15
OMV Aktiengesellschaft	Delegation of personnel and other	1.78	0.05
OMV Petrom Global Solutions S.R.L.	Various services	1.73	0.14
OMV Slovensko s.r.o.	Various services	0.16	-
Borealis AG	Various services	0.10	-
OMV Exploration & Production GmbH	Delegation of personnel and other	0.09	0.66
OMV Offshore Bulgaria GmbH	Various services	0.06	0.01
OMV Petrol Ofisi A.Ş.	Various services	0.04	-
Trans Gas LPG Services S.R.L.	Various services	0.02	-
Total subsidiaries		10.31	15.15
Total OMV Petrom Group		1,442.82	65.16

During 2015, OMV Petrom Group had the following interest income and interest expenses with related parties (including balances as of December 31, 2015 for interest payable and interest receivable).

	Interest expense	Balances interest payable
OMV Petrom S.A. - parent company		
OMV Petrom Global Solutions S.R.L.	1.10	0.08
Total OMV Petrom S.A.	1.10	0.08
Total OMV Petrom Group	1.10	0.08

	Interest income	Balances interest receivable
OMV Petrom S.A. - parent company		
Petrom Nădlac S.R.L.	0.03	-
Total OMV Petrom S.A.	0.03	-
Total OMV Petrom Group	0.03	-

29. RELATED PARTIES (continued)

Loan to OMV Petrom Global Solutions S.R.L.

A loan agreement with maturity on June 15, 2019 was signed in 2014 between OMV Petrom S.A. and OMV Petrom Global Solutions S.R.L. for a maximum limit of RON 27.00 million. There are no outstanding amounts under this facility as at December 31, 2016 and 2015. Relationship with OMV Petrom Global Solutions S.R.L. also comprises the cash pooling during 2016 and 2015, included in Note 15c).

Loan to Petrom Nădlac S.R.L.

During 2014, OMV Petrom S.A. granted an intercompany loan to Petrom Nădlac S.R.L. with the maximum limit of RON 2.70 million, having maturity on April 30, 2019. The outstanding amount as at December 31, 2016 was nil (December 31, 2015: RON 1.40 million).

Loan to Energy Production Enhancement S.R.L.

During 2016, OMV Petrom S.A. granted an intercompany loan to Energy Production Enhancement S.R.L. with the maximum limit of RON 0.10 million, having maturity on June 30, 2016. The loan was fully repaid on due date.

Ultimate parent

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft, being the ultimate parent of the Group, with its office based at Trabrennstraße 6-8, 1020 Vienna, Austria. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 24.9%).

The consolidated financial statements of OMV Aktiengesellschaft are prepared in accordance with IFRS 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 2016, the General Meeting of Shareholders approved a net remuneration for each member of the Supervisory Board amounting to EUR 20,000 per year and an additional net remuneration for each committee member of EUR 4,000 per meeting of the respective committee of the Supervisory Board (2015: same amount).

At December 31, 2016 and 2015, there are no loans or advances granted by the Group to the members of the Supervisory Board.

As at December 31, 2016 and 2015, the Group does not have any obligations regarding pension payments to former members of the Supervisory Board.

29. RELATED PARTIES (continued)

The remuneration paid to members of the Executive Board and to the directors reporting to Executive Board members consists of a fixed monthly salary, bonuses and other benefits, including benefits in-kind. The aggregate amount of remuneration and other benefits, including benefits in-kind, paid in 2016 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 52.71 million (2015: RON 54.26 million).

30. DIRECT AND INDIRECT INVESTMENTS OF OMV PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2016

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
Tasbulat Oil Corporation BVI	100.00%	NC	Holding company	British Virgin Islands
OMV Petrom Wind Power S.R.L.	99.99%	FC	Wind power production	Romania
OMV Petrom Gas S.R.L.	99.99%	FC	Gas distribution	Romania
Petromed Solutions S.R.L.	99.99%	FC	Medical services	Romania
OMV Petrom Aviation S.A.	99.99%	FC	Airport fuel sales	Romania
OMV Srbija DOO	99.96%	FC	Fuel distribution	Serbia
OMV Bulgaria OOD	99.90%	FC	Fuel distribution	Bulgaria
Petrom Nădlac S.R.L.	100.00%	NC	Fuel distribution	Romania
Kom Munai LLP	95.00%	FC	Oil exploration and production in Kazakhstan	Kazakhstan
Trans Gas LPG Services S.R.L.	80.00%	NC	LPG transportation related services	Romania
Petrom Exploration & Production Limited	99.99%	FC	Exploration and production services	Isle of Man
Energy Production Enhancement S.R.L.	100.00%	NC	Services incidental to oil and gas production	Romania
Associated companies (20-50%)				
Franciza Petrom 2001 S.A.	40.00%	NAE	Fuel distribution	Romania
Brazi Oil & Anghelescu Prod Com S.R.L.	37.70%	NAE	Fuel distribution	Romania
OMV Petrom Global Solutions S.R.L.	25.00%	EM	Financial, IT and other services	Romania
Asociatia Romana pentru Relatia cu Investitorii	20.00%	NAE	Public representation	Romania

*) 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 2016, the subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated, the subsidiary ICS Petrom Moldova S.A. reorganized its legal form, becoming limited liability company Petrom Moldova S.R.L. and OMV Petrom Group set-up a new non-consolidated entity, Energy Production Enhancement S.R.L., with a 100% participating interest.

During 2015, OMV Petrom stake in fully consolidated subsidiary Petrom Exploration & Production Limited increased from 50.00% to 99.99%, and during 2016 further increased by 0.003 percentage points.

During 2015, OMV Petrom Group, through its subsidiary OMV Petrom Marketing S.R.L., acquired 1.49% shares in Petrom Nădlac S.R.L. Non-consolidated subsidiary Petrochemicals Arges S.R.L. and non-consolidated associate Fontegas Peco Mehedinti S.A. were deregistered during 2015.

The subsidiaries which are not consolidated have very low volumes of business; the total sales, net income/losses and equity of such companies represent less than 1% of the consolidated totals.

31. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2016, OMV Petrom Group has not drawn any borrowings (2015: RON 54.20 million) and has repaid borrowings amounting to RON 273.42 million (2015: RON 188.13 million) and finance lease obligations amounting to RON 101.87 million (2015: RON 29.88 million).

b) Investments and other financial assets

During 2016, OMV Petrom Group set-up a new non-consolidated entity, Energy Production Enhancement S.R.L., in which it holds 100% interest, generating a cash outflow amounting to RON 0.67 million.

During 2015, OMV Petrom Group, through its subsidiary OMV Petrom Marketing S.R.L., contributed by RON 0.13 million for acquiring 1.49% shares in Petrom Nădlac S.R.L.

During 2015, the investment in Benz Oil S.A. was sold, generating a cash inflow of RON 0.01 million.

c) Disposal of Group companies

Subsidiaries

During 2016, the subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated, with no effect on the cash flows.

During 2015, OMV Petrom Group did not dispose of any fully consolidated subsidiary.

d) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by OMV Petrom Group for the year ended December 31, 2016 is of RON 501.18 million (2015: RON 1,609.01 million), out of which the amount of RON 99.28 million is related to operating activities (2015: RON 174.99 million) and the amount of RON 401.90 million represents cash outflows for exploration investing activities (2015: RON 1,434.02 million).

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Estimates of fair value at year end date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at year end date for similar liabilities with like maturities (level 2 hierarchy).

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value.

In accordance with IFRS 13, the individual levels are defined as follows:

Level 1: Using quoted prices in active markets for identical assets or liabilities.

Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

Fair value hierarchy for derivative instruments as at December 31, 2016

Financial instruments on asset side

	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	0.05	-	0.05
Total	-	0.05	-	0.05

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

Financial instruments on liability side

	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-
Liabilities on other derivatives	-	(9.41)	-	(9.41)
Total	-	(9.41)	-	(9.41)

Fair value hierarchy for derivative instruments as at December 31, 2015

Financial instruments on asset side

	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	105.16	-	105.16
Total	-	105.16	-	105.16

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	-	(102.05)	-	(102.05)
Total	-	(102.05)	-	(102.05)

The financial liabilities whose fair values differ from their carrying amounts as at December 31, 2016 and December 31, 2015 (Level 2 – observable inputs), as well as the respective differences are presented in the tables below. The fair value of these financial liabilities was determined by discounting future cash flows using interest rates prevailing at reporting date for similar liabilities with similar maturities.

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

December 31, 2016			
Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,537.99	1,550.32	(12.33)
Finance lease liabilities	210.61	209.09	1.52
Total	1,748.60	1,759.41	(10.81)

December 31, 2015			
Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,812.37	1,802.42	9.95
Finance lease liabilities	298.18	296.34	1.84
Total	2,110.55	2,098.77	11.79

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amounts are reported in the statement of financial position when the Group has a current legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. OMV Petrom enters in the normal course of business into various master netting arrangements in the form of International Swaps and Derivatives Association (ISDA) agreements or other similar arrangements.

As at December 31, 2016 there were no significant offsetting financial assets and liabilities.

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, 2015 in accordance with IAS 32 and shows in the net column the amounts presented in the statement of financial position.

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

Offsetting of financial assets 2015

	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
Derivative financial instruments	199.80	(97.83)	101.97 *	-	101.97
Other financial assets	64.31	(42.88)	21.44 *	-	21.44
Total	264.11	(140.70)	123.41	-	123.41

*) included in Other financial assets of RON 257.09 million in the statement of financial position.

Offsetting of financial liabilities 2015

	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
Derivative financial instruments	199.80	(97.83)	101.97 *	-	101.97
Other financial liabilities	64.31	(42.88)	21.44 *	-	21.44
Total	264.11	(140.70)	123.41	-	123.41

*) included in Other financial liabilities of RON 548.13 million in the statement of financial position.

33. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2016 the total commitments engaged by OMV Petrom Group for investments (except those in relation to joint arrangements) are in amount of RON 654.10 million (2015: RON 927.51 million), out of which RON 545.47 million related to property, plant and equipment (2015: RON 806.63 million) and RON 108.63 million for intangible assets (2015: RON 120.88 million).

The Group has additional commitments in relation to joint arrangements - for details please refer to Note 34.

Litigations

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. 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.

Contingent liabilities

OMV Petrom Group has contingent liabilities representing performance guarantees in amount of RON 50.77 million as at December 31, 2016 (2015: RON 51.31 million).

In Q1/2016, Bulgarian Commission for Protection of Competition (CPC) announced the initiation of several investigations about the infringement of competition rules on fuel market, OMV Bulgaria being one of the investigated companies. In Q4/2016, the CPC issued a general Statement of Objections and six Disclosure Rulings addressed to each investigated company. OMV Bulgaria OOD appealed against the Disclosure Ruling issued by CPC. Taking into account all legal ways of attack, a final Court decision on a potential fine (limited to maximum 10% of the total turnover of the respective undertaking for the financial year preceding the date of the fining decision) should not be expected earlier than 3 years. At the date of these financial statements, a reliable estimation of the potential outflow of resources cannot be made, though such outflow of resources is not considered probable by the management and no provision was recorded in this respect.

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, a reliable estimation of the amount required to settle a potential remediation obligation cannot be made, as the performance of specialized studies to determine the degree of contamination, if any, is prevented by the physical existence of the installations; consequently, no provision has been booked by the company in this respect.

OMV Petrom S.A. is subject to a partial tax audit having as scope the oil and gas royalties for the period 2011-2015. Due to various interpretations of the legal provisions with regard to calculation of gas royalties, the tax audit has been suspended until clarification of such legal basis. The Company

33. COMMITMENTS AND CONTINGENCIES (continued)

considers it fully observed all relevant legal provisions enforced by competent regulatory authorities and therefore assesses that it is not probable that an outflow of resources embodying economic benefits will be required. Considering all the above, the Company did not reflect any provision in the financial statements in relation to this matter.

34. INTERESTS IN JOINT ARRANGEMENTS

OMV Petrom S.A. entered into a farm out arrangement with ExxonMobil Exploration and Production Romania Limited (“Exxon”) with the purpose to explore and develop the Neptun Deepwater block in the Black Sea and has a participating interest of 50%. Starting August 2011, ExxonMobil has been appointed as operator (previously OMV Petrom S.A. was operator).

OMV Petrom S.A. entered into a farm out arrangement with Hunt Oil Company of Romania S.R.L. (“Hunt”) with the purpose to explore and develop Adjud and Urziceni East onshore blocks and has a participating interest of 50%. Starting October 2013, Hunt has been appointed as operator (previously OMV Petrom S.A. was operator).

In 2013 OMV Petrom S.A. entered into four farm out arrangements with Repsol with the purpose to explore and develop four onshore blocks (Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII) for the area deeper than 2,500-3,000 m and has a participating interest of 51%. OMV Petrom S.A. has been appointed operator.

In 2012 OMV Petrom S.A. signed a transfer agreement with ExxonMobil, Sterling Resources Ltd. and Petro Ventures Europe B.V. for the purchase of hydrocarbon exploration and production rights to the deep water portion of the XV Midia Block (“Midia Deep”). Following completion of the transfer agreement in 2014, the participating interests in Midia Deep were: ExxonMobil 42.5%, OMV Petrom 42.5%, and Gas Plus 15% and ExxonMobil was the operator of petroleum operations. During 2016, the titleholders applied to the National Agency for Mineral Resources in Romania for the relinquishment of the concession agreement, which was approved at the beginning of 2017.

Joint activities described above are classified as joint operations according with IFRS 11.

OMV Petrom’s share of the aggregate capital commitments for these joint arrangements as at December 31, 2016 is amounting RON 57.82 million (2015: RON 333.29 million), mainly in relation to off-shore drilling requirements.

35. RISK MANAGEMENT

Capital risk management

OMV Petrom Group continuously manages its capital adequacy to ensure that its entities will be optimally capitalized, in accordance with their risk exposure, in order to maximize the return to stakeholders. The capital structure of OMV Petrom Group consists of equity attributable to stockholders of the parent (comprising share capital, reserves and revenue reserves as disclosed in the "Consolidated Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 15). Capital risk management at OMV Petrom Group is part of the value management and it is based on permanent review of the gearing ratio of the group.

Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents. Due to the significant cash balance at December 31, 2016, OMV Petrom Group switched to a net cash position of RON 237 million, compared to the December 31, 2015 net debt position of RON 1,286 million. The gearing ratio (calculated as net debt/equity*100) was 5% as at December 31, 2015.

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 Group's Risk Management function is to secure positive economic value added for medium term time horizon by managing the group's consolidated cash flow exposure within the risk appetite. Low probability high potential impact risks are monitored individually.

Risk Management function reports twice per year to OMV Petrom Executive Board and Supervisory Board's Audit Committee an overview of OMV Petrom Group's risk profile for midterm horizon, as well as the risk management activities and initiatives undergone for mitigating the Group's risk exposures.

Risk exposures and responses

OMV Petrom Risk Management function performs a central coordination of an Enterprise Wide Risk Management (EWRM) process in which it actively pursues the identification, analysis, evaluation and treatment of significant risks (market and financial, operational and strategic) in order to minimize their effects on cash flows up to an acceptable level agreed as the risk appetite.

Risk Management function monitors and manages all significant risks of OMV Petrom Group companies through an integrated process in line with ISO 31000 EWRM standard, by internal risk

35. RISK MANAGEMENT (continued)

reports and regular assessments which analyze all significant risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market and financial risk category plays an important role in OMV Petrom Group's risk profile and is managed with special diligence – market and financial risk includes, among others, foreign exchange risk, interest rate risk, counterparty credit risk, commodity market price risk and liquidity risk.

Response wise, any risk which increases near to its significance level or which is sensitive to the risk appetite level and it rapidly develops is monitored and alert is issued. For these situations individual and case specific treatment plans are proposed, approved and implemented accordingly in order to decrease the exposures down to acceptable levels.

Commodity Market Price Risk

OMV Petrom Group is naturally exposed to the market risks arising out of 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 OMV Petrom Group risk profile and its midterm liquidity. The market price risks of OMV Petrom Group commodities are closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within OMV Petrom Group's midterm objectives.

Financial 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 countries and currencies, industry specific activities and the corresponding exchange risks are analyzed. OMV Petrom Group is mostly exposed to the movement of the US Dollar and Euro against Romanian Leu (RON). Other currencies have only limited impact on cash flows and EBIT.

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, 2015	December 31, 2016	December 31, 2015	December 31, 2016
Thousand USD	470,293	468,286	92,712	15,753
Thousand EUR	56,687	46,095	353,861	336,243

35. RISK MANAGEMENT (continued)

Translation risk arises on the consolidation of subsidiaries preparing their financial statements in other currencies than in Romanian lei, but also from the consolidation of assets and liabilities naturally denominated in foreign currency. Foreign currency assets and liabilities are those which result from transactions denominated in other currencies than the functional currencies of OMV Petrom Group companies. The largest exposures result from changes in the value of the US dollar and Euro against the Romanian Leu.

The following table details OMV Petrom Group's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in total comprehensive income generated by a 10% currency fluctuation and a negative number below indicates a decrease in total comprehensive income with the same value.

+10% increase in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2015	2016	2015	2016
Profit/ (Loss)	(337)	2,113	(29,717)	(29,015)
Other comprehensive income	38,095	43,140	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2015	2016	2015	2016
Profit/ (Loss)	337	(2,113)	29,717	29,015
Other comprehensive income	(38,095)	(43,140)	-	-

(i) This is mainly attributable to the exposure on USD financial assets and financial liabilities.

(ii) This is mainly attributable to the exposure on EUR loans and leases.

The above sensitivity analysis of the inherent foreign exchange risk shows the translation exposure at the end of the year; however the cash flow exposure during the year is continuously monitored and managed by OMV Petrom Group.

35. 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.

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

Variable rate borrowings:

	Balance as at		Effect of 1% change in interest rate	
	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016
Short term borrowings	371.41	405.29	3.71	4.05
Long term borrowings	1,437.13	1,150.19	14.37	11.50

In 2016, there was no need for hedging the interest rate risk, hence no financial instruments were used for such scope.

Counterparty Credit Risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations 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 is secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by strict 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.

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows throughout OMV Petrom Group are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. To ensure that OMV Petrom Group remains solvent at all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Group financial liabilities is presented in Note 16.

36. SUBSEQUENT EVENTS

On February 2, 2017, the Supreme Administrative Court dismissed OMV Bulgaria EOOD's appeal against the CPC ruling regarding the disclosure of confidential information. Administrative procedures regarding CPC's investigation are still ongoing. These subsequent events do not change the designation as contingent liability, as presented in Note 33.

These financial statements, presented from page 97 to page 184, 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 23, 2017.



Mariana Gheorghe,
Chief Executive Officer
President of the EB



Andreas Matje,
Chief Financial Officer
Member of the EB



Peter Zeilinger,
Member of the EB
Upstream



Lăcrămioara Diaconu-Pințea,
Member of the EB
Downstream Gas



Neil Morgan,
Member of the EB
Downstream Oil

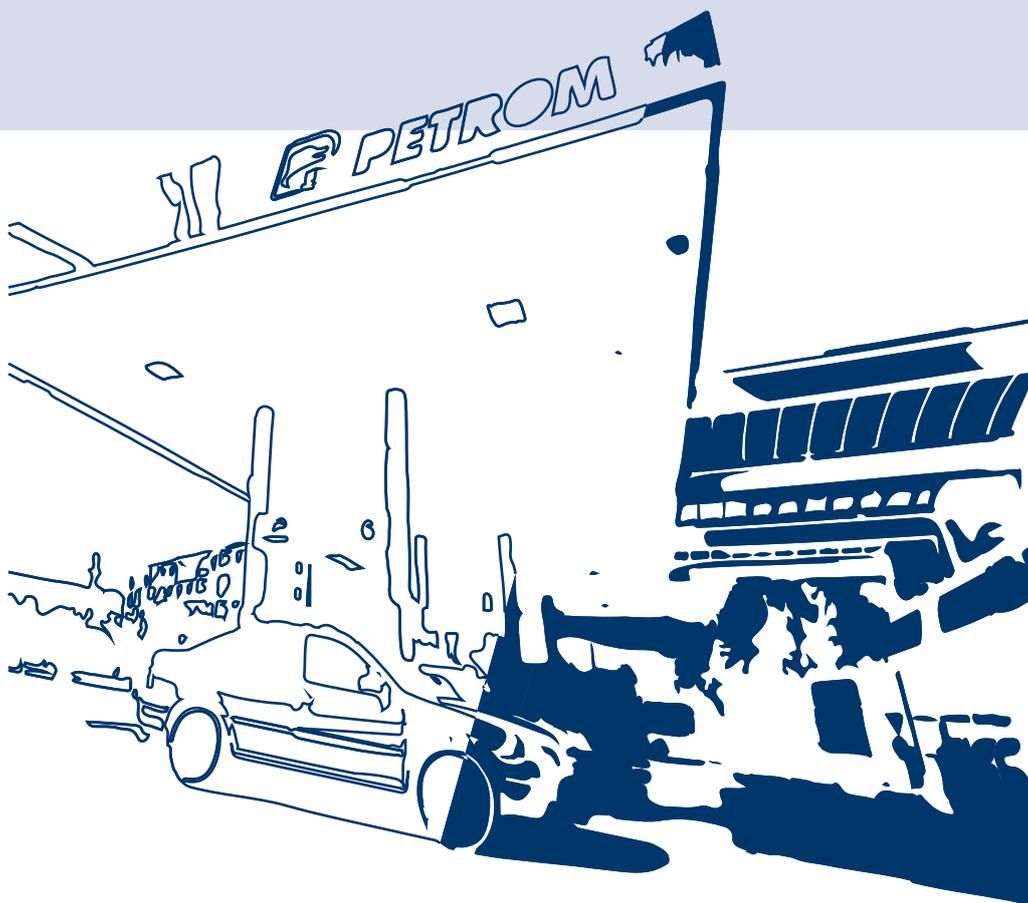


Irina-Nadia Dobre,
Director Finance Department



Nicoleta-Mihaela Drumea,
Head of Financial Reporting

Consolidated report on payments to governments



Consolidated report on payments to governments for the year 2016

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 2016, 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, 2016.

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	438,278	579,626	56,908	1,074,812
Kazakhstan	37,355	-	3,335	40,690
Total	475,633	579,626	60,243	1,115,502

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	-	441,589	56,802	498,391
Offshore Black Sea	-	138,037	106	138,143
Payments not attributable to projects	438,278	-	-	438,278
Total	438,278	579,626	56,908	1,074,812
Payments per Government				
State Budget	438,278	579,626	-	1,017,904
National Company of Forests	-	-	39,050	39,050
Local City Councils	-	-	14,203	14,203
National Agency for Mineral Resources	-	-	3,211	3,211
Conpet SA	-	-	444	444
Total	438,278	579,626	56,908	1,074,812
Kazakhstan				
Payments per project				
Tasbulat area	19,971	-	2,734	22,705
Komsomolskoe	17,384	-	601	17,985
Total	37,355	-	3,335	40,690
Payments per Government				
State Revenue Committee ¹	37,355	-	-	37,355
Training centers, universities ²	-	-	2,678	2,678
Akimat of Mangystau Region ³	-	-	657	657
Total	37,355	-	3,335	40,690
Total	475,633	579,626	60,243	1,115,502

¹ State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan

² Financing of various expenses with regard to university training centers as agreed within the concession agreement

³ Financing of various projects under the joint control of the Akimat of Mangystau Region and OMV Petrom within the concession agreement.



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This report may contain forward-looking statements. These statements reflect the Company's current knowledge and its expectations and projections about future events and may be identified by the context of such statements or words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "may," "will," "would," "could" or "should" or similar terminology. By their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements.

None of the future projections, expectations, estimates or prospects in this report should in particular be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared or the information and statements contained herein are accurate or complete. As a result of these risks, uncertainties and assumptions, you should in particular not place reliance on these forward-looking statements as a prediction of actual results or otherwise.

This report does not purport to contain all information that may be necessary in respect of the Company or its shares and in any event each person receiving this report needs to make an independent assessment. The Company undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this report. This report and its contents are proprietary to the Company and neither this document nor any part of it may be reproduced or redistributed to any other person.

OMV Petrom Group in figures 2016



OMV Petrom



Supervisory Board Report on OMV PETROM S.A.'s separate Financial Statements prepared in accordance with Ministry of Finance Order no. 2844/2016

In 2016, the Supervisory Board thoroughly reviewed the position and prospects of the OMV Petrom S.A. ("OMV Petrom" or the "Company"), and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We supervised the Executive Board on the management of OMV Petrom S.A., monitored its work and we were involved in the Company's key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

The Supervisory Board received 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. We discussed all transactions significant for OMV Petrom in the plenary meetings, based on the reports of the Executive Board.

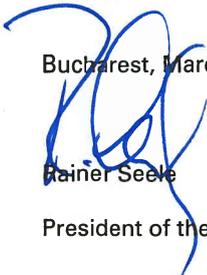
The separate financial statements and audit report were presented for Supervisory Board examination in a timely manner. Ernst & Young audited the 2016 separate financial statements, reviewed the conformity of the Directors' Report with the separate financial statements and issued unqualified audit opinions. The auditors attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the separate financial statements with the auditors and examined them carefully. The Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual separate financial statements, including the management report.

We have also reviewed and analyzed the attached Report of the Executive Board (Directors' Report) presented as Appendix 1 which gives a true and fair view of the development and performance of the business and the financial position of OMV Petrom, together with a description of the principal risks and associated uncertainties as of December 31, 2016.

Hence, the separate financial statements prepared in accordance with Ministry of Finance Order no. 2844/2016 were approved in today's Supervisory Board meeting in line with the Audit Committee's recommendation and will further be submitted for approval in the General Meeting of Shareholders to be held on April 25, 2017.

Furthermore, we have reviewed and approved the report on payments to governments for the year 2016, prepared in accordance with Chapter 8 of 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.

Bucharest, March 23, 2017



Rainer Seele

President of the Supervisory Board

Appendix 1

Directors' Report on OMV PETROM S.A.'s separate Financial Statements prepared in accordance with Ministry of Finance Order no. 2844/2016 and in compliance with the Regulation no.1/2006, Appendix 32, issued by the National Securities Commission

Overview of the Company's nature

The Company's headquarters is located at Coralilor Street no. 22, sector 1 Bucharest, Romania. The Company was set up according to the Government Ordinance no. 49/Oct 1997, approved by Law no. 70/April 1998. The Company is registered with the Trade Register under number J40/8302/1997 and has as unique fiscal registration code RO1590082. The Company has as main activities exploration and production of hydrocarbons, sale of natural gas, refining of crudes, marketing of petroleum products, as well as production and sales of electricity. OMV Petrom unfolds its activity either directly or through its affiliates in Romania, Kazakhstan (only exploration and production of hydrocarbons) and Bulgaria, Serbia and Republic of Moldova (only marketing of petroleum products).

A 15.78% stake of the Company's shares is free float, traded within the Premium category of Bucharest Stock Exchange, under SNP symbol and on the London Stock Exchange's main market for listed securities under the symbol "PETB" and "PETR". Market capitalization as of December 30, 2016 was RON 14,784,112,275.

The Company is the parent of OMV Petrom Group ("the Group"). Separate individual financial statements for the year ended December 31, 2016 are prepared in accordance with International Financial Reporting Standards (IFRS), as the Ministry of Finance Order (MOF) no. 2844/2016 stipulates that Romanian listed companies must prepare financial statements in accordance with IFRS as endorsed by European Union (EU). The annual consolidated financial statements are also prepared by the Company in accordance with IFRS as endorsed by EU. In its turn, the parent Company OMV Petrom S.A. is part of the OMV Group which prepares consolidated financial statements at the level of OMV Aktiengesellschaft, with its registered office at Trabrennstrasse 6-8, 1020 Vienna, Austria. The annual consolidated financial statements of the OMV Petrom Group and OMV Group are public and may be obtained from the companies' websites, i.e. www.omv.com and www.omvpetrom.com.

OMV Petrom S.A. ("OMV Petrom") has vertically integrated activities and is organized into three operating business segments: Upstream, Downstream Oil and Downstream Gas while management, financing activities and certain service functions are concentrated in the Corporate & Other segment.

As at December 31, 2016 and 2015 the total share capital amounts to RON 5,664,410,833.50, representing 56,644,108,335 shares (December 31, 2015: same number) with a nominal value of RON 0.1 per share.

The shareholders' structure as at December 31, 2016 is presented below:

	<u>No. of shares</u>	<u>Percent</u>
OMV Aktiengesellschaft	28,894,467,414	51.01%
Romanian State	11,690,694,418	20.64%
Fondul Proprietatea S.A.	7,117,548,078	12.57%
Legal entities and private individuals	<u>8,941,398,425</u>	<u>15.78%</u>
Total	<u>56,644,108,335</u>	<u>100.00%</u>

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

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

As of December 31, 2016 the number of GDRs was 1,756,419, equivalent of 263,462,850 ordinary shares, representing 0.0047% from the share capital.

1. Analysis of the company's activity

1.1. a) The activity developed or which is to be developed by the company and its subsidiaries.

OMV Petrom develops the following main activities:

- The exploration and production of crude and natural gas on fields located onshore and offshore;
- Emergency works, commissioning and repair of wells;
- Crude refining;
- The distribution, transport, storing, marketing, bunkering of ships and the supply of airships with crude oil products;
- Wholesale and retail trade in merchandise and miscellaneous products;
- The import and export of crude, petroleum products, petrochemicals and chemicals, equipment, machines and specific technologies;
- Production, transmission, distribution, trade of electricity;
- Medical and social activity for its own employees and third parties;
- Other activities established and detailed in the Articles of Association of the company.

The detailed structure of the consolidated companies in OMV Petrom Group at December 31, 2016 is presented in Annex a) to the current report.

b) The date when the company was established

The company was established on October 27, 1997 and began its activity as of November 1, 1997, as per the Emergency Ordinance no. 49/1997 approved through Law no. 70/1998 under the name of S.N.P. Petrom S.A. (SNP – Societatea Nationala a Petrolului/ National Oil Company). In the General Extraordinary Meeting of Shareholders dated September 14, 2004 the change of the company's name from SNP Petrom SA to S.C. Petrom S.A. was approved.

Starting January 1, 2010, the company name is OMV Petrom S.A., based on the Resolution of the Extraordinary General Meeting of Shareholders dated October 20, 2009.

c) Mergers or significant reorganizations of the company, the subsidiaries or the companies controlled performed during the financial year.

Not applicable.

d) Asset acquisitions and/or alienation

Not applicable.

e) Overview of the main results of the company

2016 was another challenging year for the global oil and gas industry, offering a mixed picture with increased price volatility. Our swift reactions to challenging market fundamentals continued, with further cost savings and prioritized investments. This allowed us to maintain a strong balance sheet, featured by the switch to a net cash position, and to strengthen our free cash flow.

In **Upstream** segment, OMV Petrom produced in Romania 3.66 mn tons of crude oil including condensate and 5.25 bcm of natural gas, the equivalent of 60.66 mn boe total oil and gas. Offshore production accounted for approximately 8% of oil production and 26% of natural gas production from total production in Romania. An important event was the finalization of the offshore gas compression project (Lebada Est NAG) which influenced the achieved production results positively. The biggest gas field Totea Deep reached a plateau during the year, but it had a negative influence on overall production due to the planned shut down of one month to enable the upgrade of the park facilities in September-October 2016. A very successful workover campaign partially compensated the natural production decline. The drilling activity was reduced compared to previous years, due to a still low oil price environment.

In 2016, crude oil production obtained using enhanced oil recovery techniques accounted for approximately 21% of total domestic oil production. Heavy oil, representing crude oil with density greater than 900 kg/m³, accounted for more than 35% of total production of crude oil including condensate.

In 2016, the average crude oil production was 72.0 kboe/d, below the level of 75.1 kboe/d achieved in 2015, due to natural decline and surface works (both onshore and offshore).

Domestic gas production was 93.8 kboe/d, below the level of 94.5 kboe/d achieved in 2015, due to natural decline and the planned surface works in Totea Deep, despite positive results of the Lebada Est NAG offshore compression project. The internal gas consumption for upstream operations accounted for approximately 12.3% of total gas production.

2016 also marked the finalization of the exploration drilling program for the current exploration phase in the Neptun Deep block. A total of 7 exploration and evaluation wells were drilled between July 2014 and January 2016, in the second exploration campaign, most of them encountering hydrocarbons.

As of December 31, 2016 the total proved oil and gas reserves in OMV Petrom's portfolio amounted to 582 mn boe, while the proved and probable oil and gas reserves amounted to 829 mn boe, in Romania.

Downstream Oil segment significantly contributed to Company results due to improved operational performance, better demand for oil products' and increased cost efficiency, partly offsetting the decline in refining margins to still good levels. The refinery utilization rate was slightly higher than the 2015 level (89% in 2016 compared to 88% in 2015), supported by better domestic demand of petroleum products, despite the one-month planned turnaround of the refinery, while fuel and losses were stable.

Downstream Gas segment made a positive contribution to the results building on the good operational performance in both gas and power businesses. Capitalizing on our integrated business model, we maintained our strong market position, strengthening existing gas sales channels, while making progress on building new ones. On the power market, we have gained high value, benefitting from a good mix of spot and forward sales. Additionally, we made progress with our objectives to optimize the product portfolio and to improve customer orientation, to sustainably ensure value-generation.

1.1.1. General evaluation elements

Item, RON mn	2014	2015	2016
Net income/(loss)	1,837	(631)	908
Net turnover	16,537	13,952	12,594
Operating result (EBIT)	3,541	(595)	890
Operating expenses	13,243	14,959	12,111
Liquidity (cash and cash equivalents)	946	666	1,854

In 2016, OMV Petrom's EBIT amounted to RON 890 mn, compared to the loss of RON (595) mn in 2015, when impairments for the producing assets in the Upstream segment were recorded, following reduced oil price assumptions. The operating result was also positively influenced by exploration expenses which decreased to RON 262 mn in 2016 from RON 577 mn in 2015, mainly due to reduced activity at the Neptun block.

The information related to net turnover split per geographical areas is presented below.

Item, RON mn	2014	2015	2016
Romania	16,069	13,501	12,287
Rest of CEE	437	428	293
Rest of world	31	24	14
TOTAL	16,537	13,952	12,594

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.*

Please see section 5 for a detailed analysis of the financial statements.

1.1.2. Evaluation of the company's technical expertise

a) Main products and services

As OMV Petrom is an integrated oil and gas company, covering the full chain of upstream and downstream activities, the number of products can be grouped into the following categories representative for the company's activity:

- Crude oil;
- Natural gas;
- Petroleum products: gasoline, diesel, kerosene, heavy fuel oil, LPG;
- Electricity.

b) Main outlets for each product or service and the distribution methods

OMV Petrom is present on relevant markets as a producer and supplier of crude oil and natural gas, petroleum products and electricity.

- **Crude:** OMV Petrom accounts for almost the entire oil production in Romania which is delivered to its own refinery - Petrobrazi; the crude transportation is handled by the state owned company Conpet S.A.
- **Natural gas:** OMV Petrom accounts for approximately half of the gas production in Romania. A small part of the natural gas produced by OMV Petrom is used in the Upstream activity. The remaining volume is partly delivered to internal consumers (such as the Brazi power plant), while most of it is placed on the market through the affiliated company OMV Petrom Gas S.R.L.. For the delivery of the natural gas, OMV Petrom uses the national pipeline system of Transgaz and also its own network.

- **Petroleum products:** These products are sold to both Romanian and international markets. The company uses both retail and wholesale distribution channels, directly or through affiliates, to sell its refined products. The Group's retail supply channel consisted in a network of 783 fuel filling stations as of end-2016, in Romania (with 554 operating filling stations) and in the neighboring countries: Bulgaria, Serbia and the Republic of Moldova. Retail market share in the operating region, calculated by dividing retail sales (Gasoline + Diesel) to total retail market (Gasoline + Diesel), was broadly at the same level as last year, reaching 33%.
- **Electricity:** OMV Petrom sells the electricity it produces on platforms managed by OPCOM S.A. (the electricity market operator), as well as to final clients. In 2016, OMV Petrom generated a net electrical output of 2.8 TWh and had an approx. 7% contribution to the balancing market, according to estimated available information.

c) Analysis of various revenues types

The weight of each revenue category in total revenues is presented in the table below:

Item	Total value – RON mn			Share in revenues (%)		
	2014	2015	2016	2014	2015	2016
Operating revenues ¹	16,784	14,364	13,001	96	94	95
<i>thereof Turnover</i>	<i>16,537</i>	<i>13,952</i>	<i>12,594</i>	-	-	-
Financial revenues	668	994	679	4	6	5
TOTAL	17,452	15,358	13,680	100	100	100

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

¹ *the difference to Turnover represents other operating income.*

d) New products

In 2016 and 2015 there were no new products.

1.1.3 Evaluation of the provision of technical and material resources (domestic and imports)

OMV Petrom is processing mainly domestically produced crude oil in its Petrobrazi refinery in order to obtain petroleum products and to maximize the company's integration value. The Company is also constantly evaluating the economic benefits from processing imported crude. During 2016, OMV Petrom processed 213 thousand tons imported crude oil (2015: 171 thousand tons).

1.1.4. Overview of the sale activity

A breakdown of turnover per each business segment is presented in the table below:

Turnover per segments of activity, RON mn	Year ended December 31		
	2014	2015	2016
Upstream	124	225	84
Downstream Oil	12,658	9,690	8,595
Downstream Gas	3,653	4,002	3,873
Corporate and Other	102	36	42
Total	16,537	13,952	12,594

Turnover per segments refers to sales to third parties (excluding inter-segmental sales).

The Company's **turnover** in 2016 decreased by 10% to RON 12,594 mn compared to 2015, largely due to lower petroleum products sales in Downstream Oil, following a further decline in oil prices and slightly lower quantities sold, as well as reduced gas sales in Downstream Gas, which were only partially offset by higher sales of electricity.

As the Company's business model envisages the usage of several sales channels and subsidiaries, we also present the turnover breakdown at OMV Petrom Group level:

Group turnover per segments of activity, RON mn	Year ended December 31		
	2014	2015	2016
Upstream	861	682	436
Downstream Oil	16,602	13,224	11,655
Downstream Gas	4,014	4,206	4,118
Corporate and Other	65	34	38
Total	21,541	18,145	16,247

Group turnover per segments refers to sales to third parties (excluding intra-group sales).

a) Sales evolution and outlook

The figures in the table below reflect OMV Petrom Group total sales of fuels and gas, as well as electricity output.

Products	Year ended December 31			Changes in %		
	2014	2015	2016	16/15	16/14	15/14
Total refined product sales (kt)	4,807	5,028	4,932	(2)	3	5
<i>thereof retail sales (kt)</i>	<i>2,373</i>	<i>2,529</i>	<i>2,561</i>	<i>1</i>	<i>8</i>	<i>7</i>
Gas sales (TWh)	47.7	51.4	50.4	(2)	6	8
<i>thereof to third parties (TWh)</i>	<i>44.3</i>	<i>45.2</i>	<i>43.9</i>	<i>(3)</i>	<i>(1)</i>	<i>2</i>
Total net electrical output (TWh)	1.3	2.7	2.9	10	123	100

OMV Petrom Group's total refined product sales amounted to 4,932 kt in 2016, 2% lower compared to 2015, reflecting lower export sales and the fact that OMV Petrom had to prepare for an increased level of compulsory stock.

Group retail sales were 1% higher compared to 2015, reaching 2,561 kt, reflecting the positive trend on the domestic market. In Romania, retail sales reached 2,093 kt in 2016, 5% higher compared to 2015.

In the non-retail distribution channel, in 2016, OMV Petrom continued to optimize its operations in a challenging market environment with a focus on the business-to-business activities. In Romania, the multi-channel approach (using different channels to reach the customer target groups) was pursued to strengthen sustainable profitability. Group non-retail sales decreased to 2,371 kt, 5% below the 2015 level, reflecting increased market competition. In Romania, non-retail sales were 1,175 kt, 7% below the previous year's level.

OMV Petrom's gas sales volumes decreased by 2% compared to 2015. The decline resulted from lower volumes available in storage at the beginning of 2016 (in accordance with the company's objective to minimize storage expenses).

Targeting consolidation of our power activity, in 2016 we built a mixed portfolio of spot and forward power sales, which led to an increase in the net electrical output from the Brazi power plant to 2.8 TWh (2015: 2.6 TWh). Its full integration within the gas value chain played a key role, particularly in the summer time. Due to the unplanned outage of one of the plant's gas turbines, half of the production capacity was unavailable during Q4/16.

Refining margins are projected to trend downwards in 2017 due to crude price recovery and persisting overcapacity in the market. However, lower product prices resulting from further fiscal easing in Romania (1pp VAT reduction and the elimination of the additional 7 eurocents/liter excise starting January 2017) will continue to support market demand in an environment with strong competition.

We estimate gas demand in Romania to remain broadly flat in 2017 compared to 2016, with high competition and margin pressure, including from import gas and new entrants. Additional

pressure on prices and margins overall is coming from the amendments to the Energy Law, including the obligation for gas producers and suppliers to sell/buy via centralized platforms. In the power market, demand for 2017 is anticipated to be also relatively stable, with positive average spark spreads throughout the year.

b) Company’s market share. Main competitors

With daily hydrocarbon production rates of 165.8 kboe/d and an oil/gas split of roughly 45%/55% in 2016, OMV Petrom accounts for almost the entire crude oil production and for approximately half of the gas production in Romania.

As per OMV Petrom’s estimations, Romania’s gas consumption was 125 TWh in 2016, covered predominantly by domestic production. OMV Petrom supplied more than one-third of Romania’s total estimated gas consumption in 2016. The national domestic gas production was ensured mainly by OMV Petrom and Romgaz. Relatively small volumes were also provided by other private operators like Amromco Energy, Raffless Energy, Stratum Energy and Foraj Sonde. According to data published by the Romanian energy market regulator, the main providers of import gas in 2016 were: E.ON Energie Romania, Engie Romania, Conef Gaz, WIEE Romania and Electrocentrale Bucuresti. OMV Petrom placed marginal import gas volumes on the market in 2016.

According to preliminary data available, the Romanian gross electricity production was 61 TWh, while the electricity consumption amounted to 56 TWh in 2016. The main power generators in 2016 were: Hidroelectrica, Nuclearelectrica, Complexul Energetic Oltenia (Turceni, Rovinari, Craiova). The thermal power plants covered ~39% of the total national electricity production, the hydropower plants ~30%, the nuclear-power plant ~17%, while the renewable plants covered the remainder ~14%. The Brazi power plant covered 5% of Romania’s electricity production in 2016.

The Romanian refining sector consists of four refineries in operation: Petrobrazi (owned by OMV Petrom), Petromidia and Vega (owned by Rompetrol – majority owned by Kaz Munay Gas), Petrotel (owned by Lukoil), which have a total operational capacity of approximately 12 mn tons/year. In 2016, the refineries processed a total quantity of approximately 11 mn tons of crude, according to the data provided by the National Institute of Statistics (NIS).

Retail market share in the operating region was 33%, broadly at the same level as in 2015, reflecting increased efficiency and portfolio optimization despite competition.

c) Description of any significant dependency of the company on a single customer or on a group of customers whose loss would have a negative impact on the company’s income

Given the wide range of products, OMV Petrom, also through its affiliates within the Group, has a large base of customers. Therefore, there are no third party clients which can materially affect the activity of the Company.

In addition, as a member of OMV Group, OMV Petrom has broadened its customer base with some of the affiliated companies within the OMV Group. Transactions with affiliated companies are made on arm’s length basis and are also reported to the Bucharest Stock Exchange and Financial Supervisory Authority (ASF) as per latter’s requirements.

1.1.5. Evaluation of issues related to the company’s employees/staff

a) The number and the expertise of the company’s employees

The average number of employees, calculated as average of the month’s end number of employees during the year is presented below.

	The average number of employees		
	2014	2015	2016
Average for the year	17,861	15,581	14,380

The average number of employees decreased in 2016 as a result of restructuring programs continued by the Company as a consequence of process optimization and cost efficiency measures.

As of December 31, 2016 the OMV Petrom SA workforce comprises 36.6% employees with a bachelor's or higher degrees in oil engineering and other fields (technical/financial/legal etc.).

The majority of the employees are members of representative trade union organization SNP (Sindicatul National Petrom) affiliated to SNPE ("Sindicatul National Petrom-Energie"), while a reduced number of employees are members of trade unions affiliated to "Energetica" Federation and "Lazar Edeleanu" Federation.

b) The relationship between management and employees as well as of any conflict elements which characterize this relationship

The dialog between unions and management continues on a regular basis. The key elements of the framework outlining the relationship between management and employees are the Collective Labor Agreement (CLA), Internal Rules and Parity Commissions. All the steps of any reorganization and/or outsourcing process that the Company has entered were discussed and agreed by both parties.

As of 2007, the wording of some provisions of the previous CLA (as such were amended) applicable within OMV Petrom led to a high number of labor litigations through which employees requested the granting of certain rights (e.g. payment of certain bonuses) deriving from the CLA, rights allegedly not granted to them. At the time of this report some of these types of litigations are still in progress at various stages, although in a decreasing number across the country. OMV Petrom considers that the respective rights were granted (as regards bonuses, these were included and maintained in the base salary of the employees), therefore the claims being unjustified. The company's standpoint is considered by courts in the vast majority of the cases, as a result most cases have been finally won by OMV Petrom.

During 2016, OMV Petrom received a low number of additional claims related to some provisions of the CLA. Following the assessment of the potential liabilities with respect to ongoing cases, the provision booked in prior years to cover this litigation risk was subject to reduction at the end of 2016. OMV Petrom took all possible actions and contracted all necessary resources to defend against these lawsuits and also to prevent a further increase in likelihood of litigation risk. In addition, over the years the provisions of the CLA were amended so as to limit the possibility of different interpretations that would trigger new litigations. For such, as of January 1, 2016 new CLA entered into force. The provisions of the new agreement were drafted and negotiated taking into consideration the litigation experience and the view the courts have in interpreting the employees' rights as resulting from the CLA and are meant to mitigate further litigations deriving thereof. Furthermore, employees' information on this matter was substantially increased in order to raise awareness on the topic and a focus was put on clarifying discussions with claimants.

1.1.6. Evaluation of issues related to the impact of the issuer's main activity on the environment

Summary description of the impact of the company's main activity on the environment and any existing or envisaged disputes about violations of environmental protection legislation

OMV Petrom manages its environmental impact along the entire value chain, aiming to use natural resources efficiently and minimize waste and emissions to air, water and land. The company aims to prevent and reduce oil spills and leakages.

In 2016, the pipeline integrity software was enhanced and 2,613 km pipelines with high volume / high risk of failure, now have high accuracy data within Geographic Information System and PODS (Pipeline Open data Standard). As a result, the repair program implemented for pipelines has shown a significant downward trend of the number of leaks during the second half of the year. The Process Safety Hazard and Operability (HAZOP) program will commence its penultimate year for high risk facilities with a total of 123 completed by the end of 2016, and 80 remaining for completion during 2017-2018.

Emergency drills were performed in all Upstream organizational units to strengthen the response in case of incidents. In 2016, OMV Petrom continued to roll out the extensive environmental awareness campaign "Shaping environmental values through performance", which targeted around 200 employees at OMV Petrom headquarters level and was aimed at promoting environmental performance and good practices.

Efforts to protect water resources resulted in a reduction of water withdrawal intensity by 6.2% in 2016 versus 2015. In Upstream, we continued carrying out preventive maintenance and repairs to reduce water loss, as well as optimizing fresh water supply systems and parks modernization / downsizing. The new water treatment plant at Suplacu de Barcău oil field is planned to be finalized early-2017. The construction was completed and the electrical, mechanical and civil works are in progress. This new plant replaces the existing one and incorporates the latest available technology. It is provided with physical, chemical and biological treatment units, as well as with activated carbon filtration system for water treatment before discharging to Barcău River.

In Downstream, the Petrobrazi refinery maintained its lowest water intensity in the last years as result of the previously implemented projects (e.g. recovering condensate, upgrading steam tracers batteries, reducing purges and optimizing the drinking water network).

OMV Petrom is involved in various court file cases regarding pollution claims, due to current or former specific oil and gas operations. As examples to illustrate the related events, we may refer to spills, leaks and other contamination resulting from, inter alia, ageing infrastructure and operating or waste management or accidents, resulting in various claims, such as requests for damages related to environmental restoration, lack of use of lands, fines and other measures imposed by the environmental authorities, challenges of acts issued by authorities with respect to environmental matters (including those referring to environmental taxes set up by local authorities).

Nevertheless, the company is aiming to observe the specific measures with respect to the environmental matters, as imposed by the Environmental Authorities and the law, in due time, in which regard the Company endeavors to take necessary measures to obtain access to the relevant lands, also via court claims.

1.1.7 Evaluation of research and development activities

In line with its strategic directions, the Company continued its efforts towards new exploration areas, in order to enhance new potential discoveries. In 2016, the exploration expenditure reached RON 338 mn, lower than RON 1,399 mn in 2015, mainly due to finalized drilling activities in the Black Sea.

Also, the Company owns the Institute of Research and Technological Design (ICPT) Campina that is part of Upstream Division. ICPT was set up in 1950 and has become an important center of scientific research for the oil industry, being a pioneer in terms of developing field engineering, drilling and extraction methodologies. With a vast experience in oil industry research, ICPT performs complex laboratory analysis, technical support and expertise at a high level of quality and efficiency, covering the needs of exploration and production activities. In 2016, total expenses incurred by ICPT were in amount of RON 19 mn (2015: RON 22 mn) and in 2017 are expected to reach RON 23 mn. Capital expenditure was in amount of RON 0.2 mn (2015: RON 10.2 mn), while for 2017 it is anticipated to be around RON 2.3 mn.

1.1.8. Evaluation of the company's risk management activity

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

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

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

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

Furthermore, OMV Petrom's risk management system is part of the corporate decision-making process. For any new major projects, new strategies or market directions, workshops are organized for assessing the risks associated with the benefits of the respective opportunity. The risk information collected in the workshops as well as any relevant third party opinions are used for taking informed decisions.

The OMV Petrom's Enterprise Wide Risk Management (EWRM) system follows ISO31000 and comprises a dedicated risk organization working under a robust internal regulation framework with quantitative information technology infrastructure. Additionally, EWRM system actively pursues the identification, analysis, evaluation and treatment 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. The EWRM process is embedded into the day-to-day operational business and delivers against its intended purpose.

OMV Petrom has four levels of risk management roles in a pyramid-type risk organization. The first bottom layer comprises the risk owners represented in all areas of activity by managers of various areas, the second level are the business units and divisional risk coordinators who facilitate and coordinate the risk management process in their division, the third layer is the risk manager function represented by the Risk Management department who coordinates the entire risk management process assisted by the specialized corporate functions (HSSE, Compliance, Legal, Finance, Controlling). The top level role 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 EWRM system has been assessed via external benchmark as in line with best practice at international level.

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

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

OMV Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and operational risks regarding low probability high impact hazards. Other risks that influence the company's results are counterparty credit risk, liquidity risk and interest rate risk.

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

Derivative financial instruments may be used for the purposes of managing exposure to commodity price and to foreign exchange currencies, which are evaluated, considering OMV Petrom's needs and approved by OMV Petrom's Executive Board in line with the company's risk appetite.

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

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is

given to process safety risks where OMV Petrom's policy is to "prevent incidents, ensure safe operations". The low probability high impact risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are identified and for each of them incident scenarios are developed and assessed. Where required, treatment plans are developed for each specific location. Besides emergency, crisis and disaster recovery plans, OMV Petrom's policy with regard to insurable risks is to cover them 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, business partners and suppliers. On the basis of creditworthiness and available rating information, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis.

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

OMV Petrom is inherently exposed to **interest rate risk** due to its financing activities. The volatility of EURIBOR and LIBOR may trigger less or additional cash flow resources necessary to finance the interest payments associated with OMV Petrom's debt. However the mentioned volatility is low and this has a positive impact over the potential risk.

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. As far as compliance risks are concerned, the company organizes regular trainings and awareness campaigns.

OMV Petrom's consolidated risk profile is regularly reported in comparison with the company's risk appetite for the Executive Board's approval and for the information of the Audit Committee of the Supervisory Board. In 2016, in March and October, the consolidated risk profile was reported and approved by OMV Petrom's Executive Board in accordance with the company's risk appetite and was also afterwards presented for information to the Audit Committee.

1.1.9. Estimates of the company's activity

a) Factors which affect or could affect the company's cash position

Outlook for 2017

Market, regulatory and fiscal environment

For the year 2017, OMV Petrom expects the average **Brent oil price** to be at USD 55/bbl. The Brent-Urals spread is anticipated to slightly decrease compared to 2016.

We estimate gas demand in Romania to remain broadly flat in 2017 compared to 2016, with high competition and margin pressure, including from import gas and new entrants. Additional pressure on prices and margins overall is coming from the amendments to the Energy Law, including the obligation for gas producers and suppliers to sell/buy via centralized platforms.

In the **power** market, demand for 2017 is anticipated to be also relatively stable, with positive average spark spreads throughout the year.

Refining margins are projected to trend downwards in 2017 due to crude price recovery and persisting overcapacity in the market. However, lower product prices resulting from further fiscal easing in Romania (1pp VAT reduction and the elimination of the additional 7 eurocents/liter excise starting January 2017) will continue to support market demand in an environment with strong competition.

The supplementary **taxation** was extended until the end of 2017 and the special construction tax was eliminated as of January 1, 2017. In addition, as announced by the authorities, further

developments are expected with respect to **upstream oil and gas taxation**, with public consultations envisaged to take place before new measures are applied. As previously stated, a stable, predictable and investment-friendly fiscal and regulatory framework is a key requirement for our future investments, both onshore and offshore.

Investments for 2017

Supported by anticipated improved commodity prices and our continuous focus on cost discipline, OMV Petrom expects to generate a positive free cash flow after dividends in 2017. CAPEX (including capitalized exploration and appraisal) for 2017 is anticipated to be around EUR 0.8 bn, about 40% higher yoy, with approximately 85% dedicated to Upstream. Exploration expenditure is expected to increase by 15% compared to the previous year.

In section 1.1.8. are detailed potential risks that could affect the company's cash position.

The main factors that affected the company's cash flow during 2016 are presented in section 5.

b) Capital expenditures (CAPEX) and other additions

Investments ¹⁾ , RON mn	2014	2015	2016
Upstream	5,278	3,962	2,132
Downstream Oil	681	281	342
Downstream Gas	3	9	13
Corporate and Other	92	6	3
Total	6,055	4,258	2,490

¹⁾ Include amounts for fixed assets acquisitions, financial investments, advance payments on fixed assets, land deeds, financial leasing and excludes increases from reassessment of provisions.

Investments made by OMV Petrom S.A. in 2016 amounted to RON 2,490 mn, lower by 42% compared to 2015.

Investments in Upstream activities (RON 2,132 mn) represented 86% of total CAPEX for 2016, being 46% below the 2015 level, as the swift reaction to the oil price decrease led to the prioritization of investments. Upstream investments in 2016 were focused on activities related to workovers and subsurface operations, finalizing field redevelopments, surface facilities, drilling development wells, as well as investments related to the Neptun Deep project.

Downstream Oil investments (RON 342 mn) were higher than in 2015 (RON 281 mn), mainly reflecting the planned Petrobrazi refinery turnaround and investments directed to efficiency and growth opportunities, as well as for legal and environmental compliance projects.

Corporate & Other investments amounted to RON 3 mn (2015: RON 6 mn).

c) Factors which significantly affect the income generated by the company's main activity

EBIT per segments of activity, RON mn	Year ended December 31		
	2014	2015	2016
Upstream	4,496	(1,510)	420
Downstream Oil	(376)	804	765
Downstream Gas	(853)	(130)	(80)
Corporate and Others	(149)	(76)	(73)
EBIT Consolidation ¹	422	317	(142)
Total	3,541	(595)	890

¹⁾ EBIT Consolidation result represents the inter-segmental profit elimination

During 2016, in **Upstream** segment, EBIT amounted to RON 420, compared to the loss of RON (1,510) mn in 2015, when impairments of production assets were recorded, following reduced oil price assumptions. The result in 2016 was largely impacted by lower prices, hydrocarbon volumes and the reassessment of receivables and provisions, which more than offset lower exploration

expenses, production costs and royalties. In addition, the oil price hedges for the fourth quarter of 2015 through the second quarter of 2016 were monetized in 2015 and together with the oil price hedges for the third quarter of 2015 improved the 2015 EBIT by RON 101 mn. Exploration expenses decreased to RON 262 mn in 2016 (2015: RON 577 mn), mainly due to reduced activity at the Neptun block. Average Urals crude prices decreased by 18% compared to 2015 to USD 42.10/bbl. Domestic crude oil production was 26.34 mn bbl, 4% down compared to 2015 level due to natural decline and surface works (both onshore and offshore). Domestic gas production was 34.32 mn boe, almost flat compared to the 2015 level.

In **Downstream Oil** segment, EBIT slightly decreased to RON 765 mn, as compared with RON 804 mn in 2015, largely driven by lower refining margins and by the reassessment of receivables and provisions, despite improved cost management and the positive effect of the reduction of fines imposed by the Competition Council. The indicator refining margin decreased to USD 6.98/bbl, from USD 8.71/bbl in 2015, reflecting a challenging refining environment, with lower product spreads despite lower cost for crude consumed. The Petrobrazi refinery utilization rate was slightly higher than the 2015 level (89% in 2016 compared with 88% in 2015).

In **Downstream Gas** segment, EBIT was RON (80) mn, compared with RON (130) mn in 2015. The gas business experienced persistent pressure on volumes and margins, while the power business contribution significantly improved, as a result of a good mix of spot and forward sales and supported by higher spark spreads. In 2016, the net electrical output of the Brazi power plant increased to 2.83 TWh (2015: 2.56 TWh)

EBIT in the **Corporate and Other** (Co&O) segment amounted to RON (73) mn, (2015: RON (76) mn).

2. Tangible Assets

2.1. The location and the main features of the production equipment owned by the company

OMV Petrom S.A. unfolds its activities in all the counties of the country, in Bucharest and in the Black Sea continental shelf, but also in Kazakhstan and the neighboring countries (Republic of Moldova, Bulgaria and Serbia), directly or via its subsidiaries.

Upstream:

At the end of 2016, OMV Petrom operated 232 commercial oil and gas fields in Romania.

The Company has a significant asset base in its Upstream business, in the form of property, plant and equipment used to exploit the Company's hydrocarbon reserves. This base also includes assets related to oil and gas service business, such as workover, maintenance and logistics activities.

Gas:

Being a marketing business, the Gas segment does not have production equipment or a significant asset base.

Power:

OMV Petrom has an 860 MW gas fired power plant located in Brazi.

Doljchim:

OMV Petrom continued the dismantling and decontamination activities at Doljchim in compliance with European environmental and safety standards, to prepare the site for future alternative use.

Refining:

OMV Petrom has two refineries: Petrobrazi (in operation) and Arpechim (not operating since 2011). In 2016, OMV Petrom exclusively operated its upstream integrated refinery at Petrobrazi, with a total operational capacity of 4.5 million tonnes /year.

Retail:

Through its affiliates, OMV Petrom operates 554 retail filling stations in Romania and 229 stations in the neighboring countries of Bulgaria, Serbia and the Republic of Moldova.

Number of retail filling stations per country	2014	2015	2016
Romania	544	554	554
Republic of Moldova	86	84	78
Bulgaria	89	90	90
Serbia	61	60	61
Total	780	788	783

OMV Petrom S.A.

Tangible assets, RON mn (Net Book Value)	Balance at 31.12.2015	Balance at 31.12.2016
Land, land rights and buildings, incl. buildings on third-party property	1,569	1,489
Oil and gas assets	19,938	19,560
Plant and machinery	4,995	4,563
Other fixtures and fittings, tools and equipment	137	123
Assets under construction	448	464
Total tangible assets	27,087	26,200

2.2. The degree of wear-out for fixed assets

The core items within the Upstream segment are depreciated using the unit of production method, while other tangible and intangible assets are depreciated on a straight-line basis according to estimated useful life, starting with the following month to the put in function date.

Accumulated depreciation and impairments of the tangible assets is presented in the table below:

Tangible assets, RON mn	Balance at 31.12.2015	Balance at 31.12.2016
Land, land rights and buildings, incl. buildings on third-party property	809	881
Oil and gas assets	14,310	16,127
Plant and machinery	4,204	4,554
Other fixtures and fittings, tools and equipment	228	219
Assets under construction	121	48
Total tangible assets	19,672	21,828

2.3. Potential issues related to ownership rights over the company's tangible assets

Romanian law allows former owners of land and/or buildings which were abusively confiscated by the Romanian State during the communist regime to recover their ownership rights under certain conditions. Although, under laws regarding the restitution of property confiscated during the communist regime, the land which is subject to oil-related activities cannot be restored in kind to its former owner, there are many cases where restitutions in kind have occurred. However, in many such cases, the courts have declared such restitution null and void.

The Company has received notifications regarding the restitution of the assets confiscated by the Romanian State between March 6, 1945 and December 22, 1989, which falls under the incidence of Law no. 10/2001. In total, until December 31, 2016, a number of 1,142 notifications were transmitted to OMV Petrom, out of which:

- 16 notifications were admitted and buildings were restored;
- 1,089 notifications were rejected due to the failure to comply with the requirement of Law no.10/2001;

- 31 notifications were redirected to other entities;
- 6 notifications (6 file cases opened based upon notifications) are currently under analysis.

As per Article 7.2, in conjunction with the provisions of Article 26 of the Methodological Norms for the application of Law no. 10/2001, approved through Government Decision no. 498/2002, the City Halls or the notified Prefectures are under the obligation to identify the owning entity and to direct the notifications to these entities for resolution. At the same time, those who submitted the notifications are informed that the requested asset is not under administration of these entities and also the name of the entity in charge to solve the notification. Due to the fact that up to this date the activity of solving notifications within the City Halls' and Prefectures' Commissions is still in progress, part of the notifications received may be further directed to OMV Petrom.

Apart from that, oil, gas and power activities involve significant hazards. Our assets are subject to risks generally relating to the exploration for and production of oil and gas, including blowouts, fires, equipment failure, tanker accidents, damage or destruction of key assets and other risks that can result in loss of property, caused by a number of natural and man-made acts or disasters such as human error, acts of theft or vandalism, adverse weather conditions, earthquakes or other natural disasters and force majeure events. Offshore operations, in particular, are subject to a wide range of hazards, including capsizing, collision, bad weather and environmental pollution. Although we maintain insurance as per best international practice in the industry, in certain circumstances, our insurance may not cover or may not be adequately cover the consequences of all such events, or in certain situations, insurance coverage may not be available.

3. The Market of the Securities issued by the Company

3.1. The markets in Romania and in other countries where the securities issued by the company are traded

OMV Petrom **shares** are traded on the Bucharest Stock Exchange since September 3, 2001 and in the form of **global depositary receipts** (GDRs) on main market of the London Stock Exchange (LSE) since October 20, 2016.

OMV Petrom share symbols

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

OMV Petrom GDRs symbols

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

In the first trading day of 2016 (4th of January), OMV Petrom's share price reached the maximum annual level of RON 0.2915. Afterwards, the stock entered a downward trend, with the minimum for the year of RON 0.2155 being reached on 12 February.

Until end September 2016, the share price fluctuated in line with the oil market trends.

A 2% increase was recorded on 21 September, when OMV Petrom issued clarifications related to the shareholder return for 2016. The announcement by Fondul Proprietatea to sell a 6.4% stake on 23 September and the announcement of the deal pricing on 13 October led to share price declines of ca. 4% in each of the respective days, partly recovered on the days when the shares and GDRs were settled within the Secondary Public Offering (SPO).

Overall, OMV Petrom's share price went down by 10% on a full-year basis. Nevertheless, at the end of the year, the share price was up by 24% compared to the SPO price of RON 0.21. OMV Petrom's market capitalization at the end of 2016 stood at RON 14.8 bn (EUR 3.3 bn), accounting for 10% of the total market capitalization of the companies listed on the BSE and for 16% of the capitalization of the BET index (representing the ten most liquid blue chip stocks listed on the BSE).

In terms of domestic indices development, 2016 was a better year than 2015. Moreover, OMV Petrom was partly responsible for the positive evolution of the BET index in December. Helped by the 14% increase in the OMV Petrom share price, the BET index was up by 3.7% only in December, closing the year positively with a 1.2% increase. The BET-NG index (comprising stocks in the energy and utilities sectors) in which OMV Petrom has a 30% share, decreased by 3%. The BET-BK index (designed as a benchmark for asset managers and institutional investors) grew by 0.2% over the same period.

Global Depositary Receipts (GDRs)

OMV Petrom's GDRs had their debut on the London Stock Exchange on 20 October 2016, following the sale by Fondul Proprietatea (FP) of a 6.4% stake in OMV Petrom, through a SPO of shares and GDRs, in which each GDR represents 150 shares. A volume of 2,492,328 GDRs were issued against deposit of 373,849,200 OMV Petrom ordinary shares with Citibank Europe plc, Dublin – Romania Branch, as custodian, for Citibank N.A., which is the depositary bank.

On October 20, GDRs closed at USD 8.4. In the last trading day of the year, the GDRs closed at USD 9.14, which represented an overall increase by 8.8%. Compared to the SPO price of USD 7.7/GDR, OMV Petrom GDRs appreciated by 18.7% in 2016.

As at end-December 2016, there were 1,756,419 GDRs outstanding.

During 20 Oct - 31 Dec 2016, 939,374 GDRs were traded (around USD 7.8 million), translating into a daily averages of around 19,000 GDRs (USD 0.16 mn).

3.2. Description of the company's dividend policy for the last 3 years.

Related to year	2014	2015	2016
Dividends allocated, RON mn	634.41	0	849.66 ¹

¹ Subject to GMS approval.

On March 24, 2015, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.0112 per share, resulting in a payout ratio of 30%. The dividend proposal was approved by the General Meeting of Shareholders, on April 28, 2015. The payment of the dividends started on June 12, 2015.

On March 23, 2016, the Supervisory Board accepted the Executive Board's proposal to the Ordinary GMS that no dividends will be distributed for the year 2015. This proposal was approved by the Ordinary GMS, on April 26, 2016.

On March 23, 2017, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.015 per share, resulting in a payout ratio of 81%, based on the Group's 2016 net profit attributable to stockholders' of the parent. The dividend proposal is subject to approval by the General Meeting of Shareholders, on April 25, 2017.

3.3 Description of any activity involving the company's purchasing its own shares

As at year-end 2016, OMV Petrom held a total of 204,776 own shares, representing 0.0003% of issued share capital.

In 2016 OMV Petrom did not buy back or cancel any of its own shares

3.4. Where the company owns subsidiaries, mention of the number and the nominal value of the shares issued by the parent company and held by the branches

OMV Petrom has subsidiaries, but none of them owns shares issued by the parent Company.

3.5. Where the company has issued bonds and /or other debt securities, presentation of the way in which the company fulfilled its obligations towards the holders of such securities

Not applicable.

4. Company administration

Corporate Governance Report

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 opportunities.

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

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

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

Bucharest Stock Exchange Corporate Governance Code

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

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

General Meeting of Shareholders

GMS 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 General Meetings of Shareholders, both published on the Company's corporate website, as well as in the relevant GMS convening notice.

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

At first convening, the quorum requirements are met if the shareholders representing more than ½ of the share capital of the Company are present, decisions being validly passed with the affirmative vote of shareholders representing the majority of the share capital of the Company. The same rules apply both to Ordinary and Extraordinary GMS. The Ordinary GMS held at the second convening may validly decide on the issues included on the agenda of the first scheduled meeting, irrespective of the number of attending shareholders, by the majority of the votes expressed in

such meeting. For the Extraordinary GMS held at the second convening, the quorum and majority requirements are the same as for the first convening. Where the mandatory legal provisions set out otherwise the quorum and majority requirements shall be carried out in accordance with such legal provisions.

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

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

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

GMS main duties and powers

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

- (a) to discuss, approve or modify the annual financial statements;
- (b) to distribute the profit and to establish the dividends;
- (c) to elect and revoke the members of the Supervisory Board and the financial auditor;
- (d) to establish the remuneration of the members of the Supervisory Board and of the financial auditor;
- (e) 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;
- (f) to approve the income and expenditure budget for the next financial year;

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

- (a) changing the corporate form or the business object of the Company;
- (b) increasing or reducing the share capital of the Company;
- (c) spin-offs or mergers with other companies;
- (d) early dissolution of the Company;
- (e) converting shares from one class into another;
- (f) amendments to the Articles of Association.

Shareholders' rights

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

Shareholders have, amongst 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.

Shareholders have also the right to participate and vote in the GMS, as well as to receive dividends. OMV Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote.

Moreover, shareholders have the right to challenge the decisions of GMS or to withdraw from the Company and to request the Company to acquire their shares, in certain conditions mentioned by the law. Likewise, one or more shareholders' holding, individually or jointly, at least 5% of the share capital, may request the calling of a GMS. Such shareholders have also the right to add new items to the agenda of a GMS, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

GDR holders' rights

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

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

Supervisory Board

Supervisory Board members

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of Company Law and the Articles of Association. The Supervisory Board's current mandate started in 2013 and runs until 28 April 2017.

At the beginning of 2016, the Supervisory Board consisted of the following members: Rainer Seele (President), David Charles Davies (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, Riccardo Puliti, George Băeșu, Bogdan - Nicolae Badea and Joseph Bernhard Mark Mobius.

During 2016, there were three changes in the membership of the Supervisory Board. Hence, at the end of 2016, the membership of the Supervisory Board comprised the following individuals: Rainer Seele (President), Reinhard Florey (Deputy President), Manfred Leitner, Johann Pleininger, Christoph Trentini, George Băeșu, Dan Manolescu, Joseph Bernhard Mark Mobius and Jochen Weise.

Likewise, as of January 1st 2017, following Christoph Trentini's waiver of his mandate as member of the Supervisory Board, Daniel Turnheim was appointed as member of the Supervisory Board until the next GMS.

Supervisory Board main duties and powers

The Supervisory Board has the following main powers:

- (a) to exercise control over the management of the Company by the Executive Board;
- (b) to appoint and revoke the members of the Executive Board;
- (c) to submit to the GMS a report concerning the supervision activity undertaken;
- (d) to verify the reports of the members of the Executive Board;
- (e) to verify the Company's annual separate and consolidated financial statements;
- (f) to propose to the GMS the appointment and the revocation of the independent financial auditor, as well as the minimum term of the audit contract.

Details on the Supervisory Board works and activities in 2016, 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 5 of the Supervisory Board members must be present for resolutions to be validly passed. The decisions of the Supervisory Board shall be validly passed by the affirmative vote of the majority of the members present or represented at such Supervisory Board meeting. In the event of parity of votes, the President of the Supervisory Board or the person empowered by him/her to chair the meeting shall have a casting vote.

In urgent cases, the Supervisory Board may take decisions by circulation, without an actual meeting being held, by the majority of votes. The President shall decide on whether issues are of an urgent nature.

Special Committees

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the Supervisory Board itself, without thereby preventing the entire Supervisory Board from dealing with matters assigned to the committees. As of December 31, 2016 the only special committee established at the level of the Supervisory Board was the Audit Committee.

Audit Committee

The Audit Committee is composed of three members, including the president and the deputy president of the Audit Committee, appointed by decision of the Supervisory Board from Supervisory Board members.

At the beginning of 2016, the Audit Committee was composed of Riccardo Puliti, David Charles Davies and George Băeșu. During 2016, there were two changes in the membership of the Audit Committee as detailed in the Supervisory Board report. Hence, at the end of 2016, as well as at the date of this report, the Audit Committee consisted of Reinhard Florey (President), Jochen Weise (Deputy President - independent) and George Băeșu (Member - independent).

The Audit Committee's members have adequate qualifications relevant to the functions and responsibilities of the Audit Committee.

Audit Committee main duties and powers

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

- (a) 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; starting with 23 March 2017, the attributions of the Audit Committee include also overseeing and approving the nature and level of non-audit services provided by the independent financial auditor to the Company, as well as issuance of regulations/guidelines with regard to such services;
- (b) 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;
- (c) Internal audit, internal controls and risk management – to undertake an annual assessment of the system of internal control;
- (d) 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.

Audit Committee organization

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

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

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

Presidential and Nomination Committee

In March 2017, the Company established a Presidential and Nomination Committee composed of four members appointed by the Supervisory Board amongst its members namely: Rainer Seele (President), Manfred Leitner (Deputy President), Dan Manolescu (member – independent) and Joseph Bernhard Mark Mobius (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 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 4 years running until 17 April 2019.

At the beginning of 2016, the Executive Board was composed of the following members: Mariana Gheorghe (Chief Executive Officer and President), Andreas Matje (Chief Financial Officer and member), Gabriel Selischi (member in charge with Upstream activity), Neil Anthony Morgan (member in charge with Downstream Oil activity) and Lăcrămioara Diaconu-Pințea (member in charge with Downstream Gas activity).

The Supervisory Board appointed Peter Rudolf Zeilinger as member of the Executive Board in charge with Upstream activity, starting April 1, 2016, following Gabriel Selischi's waiver of his mandate effective with the same date.

Executive Board main duties and powers

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

- (a) to establish the strategy and the policies regarding the development of the Company, including the organizational structure of the Company and the operational divisions;
- (b) 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;
- (c) 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;
- (d) to hire and to dismiss, and to establish the duties and responsibilities of the Company's personnel, in line with the Company's overall personnel policy;
- (e) 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;
- (f) 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 Romanian capital markets legislation are complied with and implemented by the Company. Likewise, the Executive Board ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the Company.

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

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

Executive Board organization

Responsibilities of the Executive Board members, as well as the working procedures and the approach to conflicts of interest are governed by relevant internal regulations. The Executive Board may hold meetings in person or by telephone or video conference. The meetings of the Executive Board are held regularly (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 convened and if at least three members, one of them being the CEO or CFO, are personally present. The Executive Board shall pass its resolutions by simple majority of the votes cast. In the event of a tie, the CEO shall have a casting vote. However, the CEO shall endeavor in her/his best efforts to achieve that, to the extent possible, resolutions are passed unanimously.

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

In 2016, the Executive Board met 54 times in person and passed resolutions by circulation on 16 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.

Diversity and employee development

As OMV Petrom's workforce is made up of more than 36 different nationalities, diversity, inclusion and equal opportunities are high on the agenda at all organizational levels. Both the Executive Board and Supervisory Board give great importance on ensuring a diversity balance of their memberships. For example, the Supervisory Board focuses, in its self-evaluation performed annually, also on aspects related to diversity in terms of age, gender and internationality of its members, the result of which is presented in the Supervisory Board Report.

Diversity contributes to OMV Petrom being acknowledged as an employer of choice, and it aims to keep it that way. Achieving gender balance has always been a challenge in the industry OMV Petrom operates.

With an increasing average age (reaching 47 in 2016) our company is focused on providing knowledge transfer programs and ensuring succession for critical (technical) positions. OMV Petrom also aims to attract the best students and offer them the opportunity to complete formal education by attending practical activities, specific to a certain business area. Open4U is the company's very successful internship program, through which, in 2016, it hosted 31 students who undertook a two-month paid internship.

Women's advancement

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

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

While there are no female members in the Supervisory Board of the Company, OMV Petrom has two women in the Executive Board: Mariana Gheorghe, the President of the Executive Board and Lacramioara Diaconu-Pințea, Executive Board member in charge with Downstream Gas. Moreover, at the end of 2016, around 38% of the first line directors reporting to the Executive Board were women, whilst the percentage of women in upper management in total (directors and head of departments) was around 29%. The proportion of women in the OMV Petrom Group as a whole increased above 25% by year end, up by three percentage points compared to the previous year.

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

OMV Petrom is committed to protecting the rights, opportunities of all employees, by promoting parity and eliminating gender bias, by offering learning opportunities in diversity and by making available to all employees an Ombudsman Department to which employees may raise work related issues, including gender related, namely the PetrOmbudsman.

Basic Principles of Remuneration

The recent oil and gas industry downturn coupled with the latest workforce dynamics have emphasized the need to design financially sustainable and flexible compensation and benefits policies. Also, to maintain long-term competitiveness, OMV Petrom has set a performance-based organization and, correspondently, a performance-based reward management.

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

OMV Petrom's remuneration principles are targeting more than just being compliant with the legislation. The purpose is to strengthen the psychological contract with its people, for they are one of the main pillars of a Company's success.

Remuneration of the Supervisory Board members

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

For the proper running of their activity, Supervisory Board members may receive also some benefits in kind, such as mobile device for business and reasonable private use and liability insurance.

Remuneration of the Executive Board members

The remuneration of members of the Executive Board consists of fixed remuneration paid monthly either in EUR or RON, based on various contractual arrangements, as the case, 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 generally entitled to 6 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 SA and governed by Romanian law. Reflecting additional responsibilities in the group of OMV Petrom SA companies, there are employees with an additional employment contract with other entities within OMV Petrom group.

The remuneration of OMV Petrom employees is at competitive levels for the relevant oil & gas industry and includes: (i) a fixed based 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 system, holiday indemnity / special days off and, depending on the assigned position, even a status car, car compensation or a functional company car and (iv) short term (quarterly and / or annual) performance-related component. The measures/ key performance indicators used are based on financial and non-financial metrics.

Internal control

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

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

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

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

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

Documentation and information	Related duties include the documentation of main processes and procedures containing a description of key control activities performed.
Monitoring and audit	Management and Internal Audit evaluate the effective implementation of the internal control system.

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

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

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

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

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

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

4.1. Presentation of the company's administrators and the following information for each administrator:

a) CV (family name, first name, age, skills, professional expertise, position and length of employment)

As at January 1, 2017, the Supervisory Board of OMV Petrom consists of nine members, elected for a four-year mandate between 28 April 2013 and 28 April 2017, as follows:

Name	Age (years)	Position	Other information
Rainer Seele	57	President of the Supervisory Board First elected at the GMS held on September 22, 2015	He graduated from the University of Göttingen, where he obtained a doctorate in Chemistry, and joined OMV Aktiengesellschaft as CEO starting July 1, 2015.
Reinhard Florey	52	Interim member and deputy president effective as of August 1, 2016	He graduated in mechanical engineering and economics from Graz University of Technology while also completing his music studies at the Graz University of Fine Arts. Chief Financial Officer (CFO) of OMV Aktiengesellschaft starting July 1, 2016.
Johann Pleininger	55	Member First elected at the GMS held on April 29, 2014	He attended the Technical College for Mechanical Engineering and Economics in Vienna, obtained the International Project Management certificate and graduated in Industrial Engineering. He joined OMV in 1977. Member of the OMV Aktiengesellschaft Executive Board, responsible for Upstream.
Manfred Leitner	57	Member First elected at the GMS held on April 26, 2011	He studied commerce at the Vienna University of Economics and Business and began his career with OMV in 1985. Member of the OMV Aktiengesellschaft Executive Board, responsible for Downstream.
George Băeșu	47	Member – independent ¹ First elected at the GMS held on April 22, 2013	He graduated from the Lucian Blaga University in Sibiu, the Law Faculty, and was awarded the MA Degree in Business Law by the Nicolae Titulescu University. In 2011 he was awarded the PhD Degree in Law by the University of Bucharest. President of the National Authority for Property Restitution.
Dan Manolescu	41	Member – independent ¹ First elected at the GMS held on April 26, 2016	He holds a PhD in Economics, awarded by the Academy of Economic Studies from Bucharest and a bachelor degree from Faculty of Law - University of Craiova. In January 2013 he was appointed

			Secretary of State in the Ministry of Public Finance.
Joseph Bernhard Mark Mobius	81	Member First elected at the GMS held on April 29, 2010	He earned a Bachelor and Master Degree from Boston University and a PhD in economics and political science from the Massachusetts Institute of Technology. Executive Chairman, Templeton Emerging Markets Group.
Jochen Weise	61	Member - independent ¹ Was elected as interim member effective as of November 1, 2016	He graduated in Law from Universities of Bochum and Bonn, Germany. He has been in non-executive positions as Supervisory Board member of Verbundnetzgas AG in Leipzig, Germany (since December 2014) and as Senior Advisor Energy Infrastructure Investments at Allianz Capital Partners in London (since Nov 2010).
Daniel Turnheim	42	Interim member effective as of January 1, 2017	He graduated Business Administration at the Vienna University of Economics and Business Administration. He joined OMV in 2002. Senior Vice-president of Corporate Finance & Controlling within OMV Aktiengesellschaft.

b) Any agreements, understanding or family connection between the respective administrators and another person who is responsible for appointing of the respective person in the position of Director.

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 members of the Supervisory Board are not appointed by certain persons or certain shareholders. They are appointed by the Ordinary GMS based on shareholders' votes and in compliance with the statutory requirements relating to quorum and majority. Therefore, there are no such agreements and understandings to be disclosed herein.

c) The participation of the Supervisory Board members at the share capital of the company.

OMV Petrom does not have knowledge of any member of the Supervisory Board holding shares issued by the Company.

d) The list of related parties to the company

Please see Annex b).

¹ Independent member as per the criteria of the Bucharest Stock Exchange Corporate Governance Code, criteria which are substantially similar with those provided by the Company Law

4.2. Executive Board

a) Terms of office for the person who is member of the executive management

The Executive Board's current mandate started in April 2015 and runs until April 2019. As of January 1, 2017, OMV Petrom's Executive Board is composed of the following members:

Name	Position
Mariana Gheorghe	Chief Executive Officer and President of the Executive Board
Andreas Matje	Chief Financial Officer
Peter Rudolf Zeilinger	Member of the Executive Board responsible for Upstream
Neil Anthony Morgan	Member of the Executive Board, responsible for Downstream Oil
Lăcrămioara Diaconu-Pințea	Member of the Executive Board, responsible for Downstream Gas

b) Any agreement, understanding or family connection between Executive Board members and another person who is responsible for appointing him/her member of the executive management

Executive Board members are appointed by decision of the Supervisory Board. Apart from their management agreements concluded with the Company, Mariana Gheorghe, Andreas Matje, Neil Anthony Morgan and Peter Rudolf Zeilinger are also parties to employment contracts with OMV entities, as amended by international assignment agreements during the time they serve as members of the Executive Board of OMV Petrom. Pursuant to these international assignment agreements, these members of the Executive Board receive certain compensation and benefits from the employing OMV entities. Such compensation and benefits are recharged to the Company as the work has been performed for the benefit of the Company via international assignment.

c) The participation of the respective person at the share capital of the company

The table below shows the number of shares held by the members of the Executive Board as of 31 December 2016, which is still valid as of the date of this report as well:

Name	Shares
Mariana Gheorghe	60,100
Andreas Matje	0
Neil Anthony Morgan	0
Peter Rudolf Zeilinger	0
Lăcrămioara Diaconu-Pințea	100

Likewise, as a matter of good corporate governance, we outline that Lăcrămioara Diaconu-Pințea's husband holds 100 shares issued by OMV Petrom.

4.3. The potential litigations and administrative procedures in which the persons presented under Sections 4.1 and 4.2 were involved over the last 5 years, concerning you're their activity or capacity to fulfill their duties within OMV Petrom

To the best of our knowledge, at the date of this report, during 2016, there is no ongoing litigation against any member of the Executive or Supervisory Board of the Company directly linked with their activity in the Company having a significant impact upon the price of the Company shares or the capacity to hold the position of members of such corporate bodies. However, members of the Executive Board and Supervisory Board might be involved in some court cases or preliminary procedures which do not fall under the aforementioned categories.

5. Analysis of the Financial Position, Performance and Cash Flows of the Company

Financial highlights, RON mn	Year ended December 31		
	2014	2015	2016
Sales revenues	16,537	13,952	12,594
Gross profit	4,610	467	1,701
EBIT	3,541	(595)	890
Net financial result	(998)	(102)	162
Net income/(loss)	1,837	(631)	908
Non-current assets	37,494	36,500	35,612
Current assets (including assets held for sale)	5,680	4,394	5,751
Equity	26,316	25,091	26,001
Non-current liabilities	10,624	11,460	11,399
Current liabilities (including liabilities associated with assets held for sale)	6,235	4,343	3,963
Cash and cash equivalents at the beginning of the year	1,083	946	666
Net cash generated from operating activities	5,726	5,971	4,134
Net cash used for investment activities	(4,637)	(4,597)	(2,849)
Net cash used for financing activities	(1,247)	(1,662)	(98)
Effect of foreign exchange rate changes on cash and cash equivalents	21	9	0
Cash and cash equivalents at the end of the year	946	666	1,854

Ratios	Year ended December 31		
	2014	2015	2016
Liquidity ratios			
Current ratio	0.91	1.01	1.45
Acid test	0.62	0.65	1.07
Risk ratios			
Gearing ratio	6%	4%	n.m.
Indebtedness ratio	4%	4%	3%
Operational ratios			
Stock turnover – days	51	46	51
Days in receivables – days	37	42	38
Tangible assets turnover	0.56	0.52	0.48
Total assets turnover	0.38	0.34	0.30
Profitability ratios			
Net profit margin	11%	(5%)	7%
EBIT margin	21%	(4%)	7%
EBITDA margin	44%	40%	33%
Return on fixed assets (ROFA)	12%	(2%)	3%
Return on equity (ROE)	7%	(2%)	4%

Please see Annex c) for definitions of the above ratios.

Compared to 2015, **sales revenues** decreased by 10% to RON 12,594 mn. Please see section 1.1.4 for a detailed breakdown of sales revenues and explanation of variance. **OMV Petrom** is an integrated oil and gas company. As oil produced by the Upstream segment is processed at the Petrobrazi refinery, the Downstream Oil business segment represents the largest share of total sales to external customers: 68% or RON 8,595 mn (2015: RON 9,690 mn). The Downstream Gas segment's contribution was RON 3,873 mn or approximately 31% of total sales, 3% below 2015.

EBIT for the year 2016 amounted to RON 890 mn, compared to the loss of RON (595) mn in 2015, being influenced mainly by the following more significant evolutions:

- **Sales revenues** decreased by 10%;
- **Operating expenses** decreased by 19%, mainly as:
 - Cost of sales, which include variable and fixed production costs, as well as costs of goods and materials employed, decreased with RON 2,588 mn, mainly as a result of lower impairments (2015 being affected by impairments of producing assets in Upstream)
 - Exploration expenses decreased with RON 314 mn, mainly due to reduced activity at the Neptun block;
 - Other operating expense increased with RON 98 mn compared to 2015, mainly due to a reassessment of receivable and provisions.
- **Other operating income** slightly decreased by 1%.

In 2016, based on management estimations regarding long term Brent oil price, production volumes and production costs, it was concluded that there are no triggering indicators for performing an impairment test for Upstream cost generating units (CGUs), either due to indicators of additional impairment or due to indicators for a reversal of impairment. In 2015, considering the significant decline in oil prices and increased market volatility, the Company considered indications of impairment are present for Upstream segment. As a result, impairment tests were performed for the Upstream CGUs. The revised assumptions led to total impairments of RON 2,460.67 mn recognized in 2015, covering mainly oil and gas production assets.

The Company's **net financial result** improved to RON 162 mn in 2016 from RON (102) mn in 2015, mainly due to lower additional provision for risk and charges in relation to the parent company guarantees issued by OMV Petrom for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP, partially compensated by lower dividends distributed by subsidiaries in 2016 comparing with 2015.

Net income increased to RON 908 mn in 2016 compared to a loss from 2015 of RON (631) mn, due to the positive impact of the operational results.

As a result of its business activities, OMV Petrom contributed RON 9,620 mn to the Romanian State budget. Out of this amount, direct taxes represent RON 1,591 mn and indirect taxes RON 8,029 mn. OMV Petrom's contribution to the State budget via direct taxes was mainly represented by profit tax that amounted to RON 126 mn, royalties that amounted to RON 551 mn, social contributions that amounted to RON 311 mn, tax on additional revenue from natural gas sales and on exploitation of mineral resources other than natural gas that amounted to RON 329 mn and tax on special construction that amounted to RON 244 mn.

OMV Petrom's contribution to the State budget via indirect taxes was mainly represented by excise (including custom excise) in amount of RON 5,774 mn, VAT (including custom VAT) in amount of RON 1,866 mn and also employees related taxes amounting to RON 371 mn.

Total assets amounted to RON 41,363 mn as of December 31, 2016, up by 1% comparing with 2015 mainly driven by a higher cash and cash equivalents position, which more than compensated the decrease in non-current assets.

Non-current assets decreased by 2% to RON 35,612 mn, compared to the end of 2015 (RON 36,500 mn), as the increase in intangible assets, which is mostly related to the operations at the Neptun Deep block in the Black Sea, was offset by the net decrease in property, plant and equipment, as depreciation and impairments exceeded investments during the period and assets related to 19 marginal onshore fields were reclassified as held for sale during 2016.

The ratio of intangible assets and property, plant and equipment to total assets amounted to 69% (2015: 72%).

Total current assets, including assets held for sale, increased by 31% to RON 5,751 mn compared to RON 4,394 mn at the end of 2015, mostly driven by the increase in cash and cash equivalents.

As at December 31, 2016, the assets and liabilities held for sale refer to:

- Upstream segment in relation to 19 marginal onshore fields reclassified as assets and liabilities held for sale following the signing of a transfer agreement by OMV Petrom S.A. with Mazarine Energy Romania S.R.L. in October 2016;
- Downstream Gas segment in relation to the envisaged sale of the entire stake in, and the assignment of loan granted to the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park, in line with the Company's strategy to focus on core business. As of December 31, 2016, management expects that this transaction will be closed within the following twelve months. Fair value less costs of disposal was estimated at RON 99.90 million, triggering increases in valuation allowances for investment in and loan granted to OMV Petrom Wind Power S.R.L. of RON 13.24 million for the year ended December 31, 2016.

Equity increased to RON 26,001 mn as of December 31, 2016 compared to RON 25,091 mn as of December 31, 2015, as a result of the net profit generated in the current period. The equity ratio of 63% as of end-December 2016 was slightly higher than the level as of end-December 2015 (61%).

Total liabilities decreased by 3% to RON 15,362 mn as of December 31, 2016, due to decrease in current liabilities. Decrease in **current liabilities** was mainly due to lower financial liabilities, broadly reflecting the completion of the exploration drilling campaign in the Black Sea. Other decreases in current liabilities are mainly the result of variation in provisions, mainly from the clearance of a legal dispute, and the reduction in trade payables, partially offset by the increase in short-term interest-bearing debts (amounts due to affiliates from cash pooling increased from RON 363 mn at the end of 2015 to RON 547 mn at December 31, 2016).

The decrease in **non-current liabilities** was mainly due to lower long-term interest-bearing debts (transfer of short-term portion) and lower financial liabilities, following lower finance lease liabilities. This was partially counterbalanced by the increase in environmental provisions and in the parent company guarantees issued by OMV Petrom for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP which amounted to RON 1,916 mn as of December 31, 2016 (December 31, 2015: RON 1,790 mn).

Provisions for decommissioning and restoration amounted to RON 8,113 mn as of December 31, 2016, both short and long term (December 31, 2015: 8,162 mn).

The annual stock count of assets, liabilities and equity was performed according with Romanian legislation (Order no. 2861/2009) and the results were recorded in the financial statements as at December 31, 2016.

At the Annual General Meeting of Shareholders held on April 26, 2016, the shareholders of OMV Petrom S.A. approved the Executive Board's proposal not to distribute dividends for the financial year 2015.

At the Annual General Meeting of Shareholders held on April 28, 2015, the shareholders of OMV Petrom S.A. approved the distribution of dividends for the financial year 2014 in gross amount of RON 634 million (RON 0.0112 per share). Payment of the dividends started on June 12, 2015.

The Company paid dividends in amount of RON 0.51 mn (related to prior periods) in 2016 and RON 631 mn in 2015.

Cash flow

Cash generated from operating activities before working capital movements decreased as compared with 2015, largely due to lower pricing environment. In addition, net cash generated from operating activities decreased also from net working capital movements, mainly as the receivables and other assets increased during 2016 comparing with the significant decrease in 2015. Cash outflows in 2016 consisted mainly in payments for investments and repayment of tranches of loans from the European Investment Bank and the European Bank for Reconstruction and Development, while 2015 included repayment of loans taken from subsidiaries and payment of dividends.

Please see more details related to the annual consolidated financial statements of the OMV Petrom Group that are public and may be obtained from the company website, i.e www.omvpetrom.com.

In accordance with Chapter 8 of Ministry of Public Finance Order no. 2844/2016 for approval of Accounting Regulations according to International Financial Reporting Standards, transposing Chapter 10 of the Accounting Directive (2013/34/EU) of the European Parliament and of the Council, management prepared a report on payments to governments for the year 2016. This report will be published together with the financial statements of OMV Petrom S.A. for the year ended December 31, 2016.

6. Corporate governance statement ²

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
Section A - Responsibilities			
<p>A.1. All companies should have internal regulation of the Board which includes terms of reference/ responsibilities for Board and key management functions of the company, applying, among others, the General Principles of this Section.</p>	√		<p>Since April 2007, OMV Petrom is managed in a two-tier system by an Executive Board, which manages the daily business of the Company under the supervision of the Supervisory Board.</p> <p>The Company's corporate governance structure and principles as well as competences and responsibilities of the GMS, the Supervisory Board and the Executive Board are laid down in the Articles of Association, the Rules and Procedures of the GMS, the internal rules of the Supervisory Board and of the Executive Board, as well as in other relevant internal regulations.</p>
<p>A.2. Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.</p>	√		<p>The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.</p> <p>Moreover, the Company has put in place internal rules on how to deal with conflicts of interest.</p>
<p>A.3. The Supervisory Board should have at least five members.</p>	√		<p>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.</p>
<p>A.4. The majority of the members of the Board should be non-executive. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Supervisory Board should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.</p>	√		<p>OMV Petrom's governance follows a two-tier system, with the Executive Board ensuring the management of the Company under the control and supervision of the Supervisory Board. The Supervisory Board comprises nine members who are all non-executive. Therefore, the balance between executives and non-executives is ensured.</p> <p>On the occasion of each (re)appointment of Supervisory Board members, the Company conducts an independence evaluation based on the independence criteria provided by the Corporate Governance Code (which are substantially similar with those provided by the Company Law), consisting in an individual personal assessment done by the relevant Supervisory Board member, followed by an external assessment.</p> <p>Moreover, for the purpose of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Supervisory Board</p>

¹The statement summarises the main highlights of the 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>members' their independent or non-independent status as of December 31, 2016.</p> <p>Following this evaluation, it resulted that at all times during 2016 at least two Supervisory Board members met all the independence criteria provided by the Corporate Governance Code. At the date of this report there are three independent members of the Supervisory Board.</p> <p>Information on the independency of the members of the Supervisory Board is included on the Company's corporate website and in the Supervisory Board Report.</p>
<p>A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.</p>	√		<p>Information on Supervisory Board and Executive Board members' permanent professional commitments and engagements, including executive and non-executive positions in companies and not-for-profit institutions are included in Supervisory Board and Executive Board members' CVs, available on the Company's corporate website, within the Investor Relations section, Corporate Governance sub-section.</p>
<p>A.6. Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.</p>	√		<p>The members of the Executive Board and the members of the Supervisory Board have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.</p> <p>The Company has put in place internal rules on how to deal with conflicts of interest.</p>
<p>A.7. The company should appoint a Board secretary responsible for supporting the work of the Board.</p>	√		<p>The Company has a General Secretary, supporting the works of the Executive Board and of the Supervisory Board.</p>
<p>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.</p>	√		<p>The Company has in place a Supervisory Board Self-Evaluation Guideline providing the purpose, criteria and frequency of such an evaluation. Based on this Guideline, the Supervisory Board underwent a self-evaluation process for the year 2016, under the leadership of the President of the Supervisory Board.</p> <p>The outcome of the Supervisory Board self-evaluation is presented in the Supervisory Board Report.</p>
<p>A.9. The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.</p>	√		<p>As a rule, Company's Executive Board usually meets once a week, while the Supervisory Board meets whenever necessary, but at least once every three months. Details on the number of and attendance to the meetings of the Executive Board and the Supervisory Board, including the Audit Committee, in 2016, are included in the Supervisory Board Report and Corporate Governance Report.</p> <p>The reports of the Supervisory Board and Executive Board are included in the Annual Report and submitted for Ordinary GMS's approval.</p>
<p>A.10. The corporate governance statement should contain</p>	√		<p>Following the independence evaluation of the Supervisory Board members, as per the</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.			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 2016, at least two Supervisory Board members met all the independence criteria. At the date of this report there are three independent members of the Supervisory Board. Information on the independency of the members of the Supervisory Board is included on the Company's corporate website 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>		√	<p>The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Company's Articles of Association and applicable law. Prior to the Ordinary GMS, their CVs are available for shareholders' consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board. The Executive Board members are appointed by decision of the Supervisory Board with the majority of votes, according to the Company's Articles of Association.</p> <p>Although during 2016 the Company did not have a nomination committee, in 2017 a Presidential and Nomination Committee, composed of four members appointed by the Supervisory Board amongst its members was established. One member of the Presidential and Nomination Committee is independent. The main role of the Presidential and Nomination Committee is to be involved in the succession planning for the Executive Board, having full responsibility on the selection process of candidates for appointment in 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.</p> <p>Thus, starting March 23, 2017, the Company changed its compliance status with this provision from "non-compliance" to "partial compliance", given that currently the Nomination and Presidential Committee has only one independent member.</p>
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</p>	√		<p>OMV Petrom's Supervisory Board has set up an Audit Committee among its members. Therefore the Audit Committee's members are all non-executives.</p> <p>During 2016, the Audit Committee was composed of three Supervisory Board members, out of which two met all independence criteria provided by the Corporate Governance Code.</p> <p>The Audit Committee includes members that have adequate qualifications relevant to the functions and responsibilities of the Audit Committee, while one member has also the necessary financial, audit and accounting expertise.</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	members and the majority of the audit committee should be independent.			
	B.2. The audit committee should be chaired by an independent non-executive member.		√	<p>Being members of the Supervisory Board, all members, including the president of the Audit Committee, are non-executives.</p> <p>Based on the independence evaluation, it resulted that at all times during 2016, two of the members of the Audit Committee met all independence criteria provided by the Corporate Governance Code.</p> <p>Until November 1, 2016, the Company was fully compliant with this provision as one of the two independent members was the president of the Audit Committee.</p> <p>Starting November 1, 2016, following the approval of a new membership of the Audit Committee, the Company changed its compliance status with this provision from "compliance" to "partial compliance", as the president of the Audit Committee fulfils only the condition of being non-executive, while the condition of being independent is not fulfilled.</p> <p>It has been concluded at that point in time as being more appropriate to appoint as president of the Audit Committee the member holding the position of deputy president considering that the independency and objectivity of the Audit Committee as a whole is not being impaired, while ensuring a smooth transition with respect to the ongoing works of the Audit Committee.</p> <p>The Company aims to re-become full compliant with this provision in the near future and for this purpose it is currently assessing possible alternatives.</p>
	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, consisting mainly in:</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 system of internal control, considering the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit Committee, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Supervisory Board; - reviewing conflicts of interests in transactions of the Company and its subsidiaries with related parties; - evaluating the efficiency of the internal control system and risk management system; - monitoring the application of statutory and
	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	√		

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<p>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.</p>			<p>generally accepted standards of internal auditing;</p> <ul style="list-style-type: none"> - receiving regularly a summary of the main findings of the audit reports, as well as other information regarding the activities of the Internal Audit department and evaluating the reports of the internal audit team; - examining and reviewing, before their submission to the Supervisory Board for approval, related party transactions that exceed or may be expected to exceed 5% of the Company's net assets in the previous financial year, in accordance with Related Party Transactions Policy. <p>Starting 23 March 2017, the attributions of the Audit Committee include also overseeing and approving the nature and level of non-audit services provided by the independent financial auditor to the Company, including by issuance of regulations/guidelines with regard to such services.</p>
<p>B.8. Whenever the Code mentions reviews or analysis 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.</p>	√		<p>The Audit Committee submits periodic reports to the Supervisory Board on the specific subjects assigned to it.</p>
<p>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.</p>	√		<p>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.</p>
<p>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.</p>	√		<p>Company adopted an internal Policy on Related Party Transactions providing for the main principles of review, approval and disclosure of related party transactions, according to the applicable regulations and Company's statutory documents, including the fact that related party transaction that exceed or may be expected to exceed, either single or connected, an annual value of 5% of the Company's net assets in the previous financial year are to be approved by the Supervisory Board following the approval of the Executive Board and based on the review of the Audit Committee of the respective transaction.</p> <p>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.</p>
<p>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.</p>	√		<p>Internal audits are carried by a separate structural department within the Company, namely the Internal Audit department.</p>
<p>B.12. To ensure the fulfillment of</p>		√	<p>Since October 1, 2016, the Internal Audit Department</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code		Complies	Does not comply or partially complies	Comments
	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.			administratively reports to the CEO. Still, the Internal Audit Department continues to maintain some functional reporting to the Executive Board. This triggered the change of the compliance status with this provision, from "non-compliance" to "partial compliance", starting with the same date. 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 endorses the annual internal audit plan. Therefore, in our opinion, the independency and objectivity of the internal audit function is not impaired by this reporting structure. Likewise, the Internal Audit Department did not encounter, in its past experience, cases that could be considered as jeopardizing its independence or objectivity due to these functionally reporting lines. The Company is currently in assessment with the aim of becoming full compliant with this provision in the future.
Section C - Fair rewards and motivation				
	<p>C.1. The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.</p> <p>Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p>		√	<p>The Company does not have a remuneration policy in place. However, although not yet formalized, the Company has and applies, consistently, some principles of remuneration concerning the Supervisory Board and Executive Board, members, the senior management and the other staff. Such basic principles of remuneration are included in the Corporate Governance Report.</p> <p>The development of a remuneration policy is currently envisaged.</p>
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 member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;</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 Corporate Governance sub-section; - Rules and Procedures of the GMS – in the Corporate Governance sub-section; - Detailed professional CVs for all members of the Executive Board and Supervisory Board – in the Corporate Governance sub-section; - Current reports and periodic reports – in the Investor News sub-section and Investor Reports and Presentations sub-sections; - Convening notices and supporting materials for the GMS – in the GMS sub-section; - Financial calendar and information on other corporate events – in the Financial calendar and results sub-section; - Name and contact information of a person able to provide investors' knowledgeable information

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
<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>on request – in the Contact sub-section;</p> <ul style="list-style-type: none"> - Investor Presentations, Annual and Interim Reports, Annual and Interim Financial Statements, both separate and consolidated, including also the independent financial auditor reports, as the case – in the Investor Reports and Presentations sub-section.
<p>D.2. A company should have an annual cash distribution or dividend policy. The annual cash distribution or dividend policy principles should be published on the corporate website.</p>	√		<p>The Company's Dividend Policy is published on its corporate website in the Investor Relations section, Corporate Governance sub-section.</p>
<p>D.3. A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means 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 Investor Relations 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 for every GMS extensive convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Company ensures that the GMSs are adequately conducted and well organized while the shareholders' rights are duly observed.</p>
<p>D.5. The independent financial auditors should attend the shareholders' meetings when</p>	√		<p>The independent financial auditors attend the Ordinary GMS whereby the annual separate and consolidated financial statements are submitted for</p>

Provisions of the Bucharest Stock Exchange Corporate Governance Code	Complies	Does not comply or partially complies	Comments
their reports are presented there.			approval.
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 Supervisory Board 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 with a view to presenting the financial elements relevant for their investment decision. In 2016, OMV Petrom organized four conference calls with the occasion of publication of the quarterly results. In addition, the Company held one-to-one and group meetings and attended analyst and investor conferences, organized in Romania and abroad. For more details, please see also the Annual Report's section relating to OMV Petrom shares. The Investor Presentations were made available at the time of the meetings / conferences on the corporate website, in the Investor Relations section.
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.	√		OMV Petrom conducts various activities regarding social and environmental responsibility. The Company has a Sustainability Policy in line with the Group Sustainability Strategy, published on the corporate website in the Investor Relations section, Corporate Governance sub-section. Likewise, please see also the Annual Report's section relating to Sustainability/ Non financial statement.

Declaration of the management

We confirm to the best of our knowledge that the separate financial statements prepared in accordance with IFRS as requested by Ministry of Finance Order no. 2844/2016 give a true and fair view of the financial position of OMV Petrom S.A. as of December 31, 2016, 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 Company, together with a description of the principal risks and uncertainties associated with the expected development of the Company.

Bucharest, March 23, 2017

The Executive Board



Mariana Gheorghe
Chief Executive Officer
President of the Executive Board



Andreas Matje
Chief Financial Officer
Member of the Executive Board



Peter Zeilinger
Member of the Executive Board
Upstream



Lăcrămioara Diaconu-Pințea
Member of the Executive Board
Downstream Gas



Neil Anthony Morgan
Member of the Executive Board
Downstream Oil

7. Annexes

a. List of consolidated companies in OMV Petrom Group at December 31, 2016

Parent company			
OMV Petrom S.A.			
Subsidiaries			
UPSTREAM		DOWNSTREAM OIL	
Tasbulat Oil Corporation LLP ¹	100.00%	OMV Petrom Marketing S.R.L.	100.00%
Kom Munai LLP	95.00%	Petrom Moldova S.R.L.	100.00%
Petrom Exploration & Production Ltd.	99.99%	OMV Petrom Aviation S.A.	99.99%
		OMV Srbija DOO	99.96%
		OMV Bulgaria OOD	99.90%
DOWNSTREAM GAS		CORPORATE & OTHER	
OMV Petrom Gas S.R.L.	99.99%	Petromed Solutions S.R.L.	99.99%
OMV Petrom Wind Power S.R.L.	99.99%		
<hr/>			
¹ Owned through Tasbulat Oil Corporation BVI as holding company.			
Associated company, accounted for at equity			
OMV Petrom Global Solutions S.R.L.			25.00%

b. The list of the persons affiliated to the company

Code of Company	OMV Group consolidated companies - including OMV Petrom Group consolidated companies as of 31 December 2016
OMV	OMV Aktiengesellschaft
ABU	OMV Abu Dhabi E&P GmbH
AGGM	AGGM Austrian Gas Grid Management AG
ALAIN	OMV East Abu Dhabi Exploration GmbH
AMIC	Amical Insurance Limited
BORA	Borealis AG
BORASC	OMV Samsun Elektrik Üretim Sanayi ve Ticaret A.Ş.
BULG	OMV BULGARIA OOD
DIRA	Diramic Insurance Limited
DTAL	Deutsche Transalpine Oelleitung GmbH
ECOGAS	OMV Gas Marketing & Trading GmbH
ECONDE	OMV Gas Marketing & Trading Deutschland GmbH
ECONHR	OMV Gas Marketing & Trading d.o.o.
ECONHU	OMV Gas Marketing & Trading Hungária Kft.
ECONIT	OMV Gas Marketing & Trading Italia S.r.l.
ELG	Erdöl-Lagergesellschaft m.b.H.
ENERCO	Enerco Enerji Sanayi Ve Ticaret A.Ş.
EPSKG	EPS Ethylen-Pipeline-Süd GmbH & Co KG
ERK	Erk Petrol Yatırımları A.Ş.
FETRAT	FE-Trading GmbH
FETRSI	FE-Trading trgovina d.o.o.
FREYKG	Freya Bunde-Etzel GmbH & Co. KG
GASTR	OMV Enerji Ticaret Anonim Şirketi
GENOL	GENOL Gesellschaft m.b.H. & Co KG
GPTHOL	OMV Gaz ve Enerji Holding Anonim Şirketi
GPTRAD	OMV Trading GmbH
HUB	Central European Gas Hub AG
ISERV	OMV - International Services Ges.m.b.H.
KONAI	KOM MUNAI LLP
MARDEP	Marmara Depoculuk Hizmetleri Sanayi ve Ticaret Anonim Şirketi
MAURI	OMV Maurice Energy GmbH
MAURIL	OMV Maurice Energy Limited
MOLDO	Petrom-Moldova S.R.L.
NZEA	OMV New Zealand Limited
OABUAE	OMV Abu Dhabi Offshore GmbH
OAFR	OMV (AFRICA) Exploration & Production GmbH
OAUST	OMV AUSTRALIA PTY LTD
OBERMG	OMV (Berenty) Exploration GmbH
OBINA	OMV Bina Bawi GmbH
OCTS	OMV Clearing und Treasury GmbH
OEPA	OMV Austria Exploration & Production GmbH
OETAL	Transalpine Ölleitung in Österreich Gesellschaft m.b.H.
OFFBLG	OMV Offshore Bulgaria GmbH
OFFMOR	OMV Offshore Morondava GmbH
OFS	OMV Finance Services GmbH
OFSNOK	OMV Finance Services NOK GmbH
OFSUSD	OMV Finance Solutions USD GmbH
OGEX	OMV Oil and Gas Exploration GmbH
OGG	GAS CONNECT AUSTRIA GmbH
OGI	OMV Gas & Power GmbH
OGMTF	OMV Gas Marketing Trading & Finance B.V.
OGNOND	OMV (Gnondo) Exploration GmbH
OGNOGA	OMV (Gnondo) Exploration S.A.
OGSA	OMV Gas Storage GmbH
OGSG	OMV Gas Storage Germany GmbH
OHUN	OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság
OILEXP	OMV Oil Exploration GmbH
OILPRO	OMV Oil Production GmbH
OIRAN	OMV (IRAN) onshore Exploration GmbH
OJA3	OMV Jordan Block 3 Upstream GmbH
OKH	OMV Kraftwerk Haiming GmbH
OLIB	OMV OF LIBYA LIMITED

Code of Company	OMV Group consolidated companies - including OMV Petrom Group consolidated companies as of 31 December 2016
OMANGA	OMV (Manga) Exploration GmbH
OMAGA	OMV (Manga) Exploration S.A.
OMANMG	OMV (Mandabe) Exploration GmbH
OMBELI	OMV (Mbeli) Exploration GmbH
OMBEGA	OMV (Mbeli) Exploration S.A.
OMVD	OMV Deutschland GmbH
OMVEP	OMV Exploration & Production GmbH
OMVINT	OMV International Oil & Gas GmbH
OMVRM	OMV Refining & Marketing GmbH
OMVSK	OMV Slovensko s.r.o.
ONAMEX	OMV (Namibia) Exploration GmbH
ONAFRU	OMV Offshore (Namibia) GmbH
ONOR	OMV (NORGE) AS
ONTSIN	OMV (Ntsina) Exploration GmbH
ONTSGA	OMV (Ntsina) Exploration S.A.
ONSHOL	OMV Switzerland Holding AG
OPEI	Preussag Energie International GmbH
OPGSOL	OMV Petrom Global Solutions S.R.L.
OPK	OMV (PAKISTAN) Exploration Gesellschaft m.b.H.
OMEA	OMV Middle East & Africa GmbH
OSERB	OMV SRBIJA d.o.o.
OSUP	OMV Supply & Trading AG
OTCH	OMV Česká republika, s.r.o.
OTHOLD	OMV Petrol Ofisi Holding Anonim Şirketi
OTNPRO	OMV (Tunesien) Production GmbH
OTRAD	OMV Supply & Trading Limited
OUK	OMV (U.K.) Limited
OUPI	OMV Upstream International GmbH
OWEAFR	OMV (WEST AFRICA) Exploration & Production GmbH
OYEM70	OMV Block 70 Upstream GmbH
OYEM86	OMV Myrre Block 86 Upstream GmbH
PCGAS	PEGAS CEGH Gas Exchange Services GmbH
PEARL	Pearl Petroleum Company Limited
PEPL	PETROM EXPLORATION & PRODUCTION LIMITED
PETAV	OMV PETROM Aviation S.A.
PETEX	OMV Petroleum Exploration GmbH
PETGAS	OMV Petrom GAS S.R.L.
PETMED	Petromed Solutions S.R.L.
PIL	Petroleum Infrastructure Limited
POAS	OMV Petrol Ofisi A.Ş.
POGI	OMV Gaz İletim A.Ş.
PORAF	Petrol Ofisi Havacılık Operasyonları A.Ş.
ROMAN	OMV Petrom Marketing S.R.L.
SIOT	Società Italiana per l'Oleodotto Transalpino S.p.A.
SLOVJA	OMV SLOVENIJA trgovina z nafto in naftnimi derivati, d.o.o.
SNO	OMV Solutions GmbH
TAG	Trans Austria Gasleitung GmbH
TASBU	TASBULAT OIL CORPORATION LLP
TOCBVI	Tasbulat Oil Corporation BVI
WINDPP	OMV Petrom Wind Power S.R.L.
YEALMA	OMV (YEMEN) Al Mabrar Exploration GmbH
YEM2	OMV (Yemen Block S 2) Exploration GmbH

c. Definitions

Liquidity ratios

Current ratio = Current assets¹⁾ / Current liabilities²⁾

Acid test = (Current assets¹⁾ - Inventories) / Current liabilities²⁾

¹⁾ include assets held for sale; ²⁾ include liabilities associated with assets held for sale

Risk ratios

Gearing ratio = Net debt / Equity in %

Net debt = Interest-bearing debts + Liabilities on finance leases - Cash and cash equivalents

Indebtness ratio = Interest-bearing debts (long term) / Equity in %

Equity ratio = Equity / (Total Assets) in %

Operational ratios

Stock turnover – days = Average inventories / Cost of sales in days

Days in receivables – days = Average trade receivables / Sales revenues in days

Tangible assets turnover = Sales revenues / Tangible assets

Total assets turnover = Sales revenues / Total assets

Profitability ratios

Net profit margin = Net income for the year / Sales revenues in %

EBIT margin = EBIT / Sales revenues in %

EBIT = Earnings before interest and taxes

EBITDA margin = EBITDA / Sales revenues in %

EBITDA = EBIT + Depreciation and amortization + Net impairment losses

Return on fixed assets (ROFA) = EBIT / Average fixed assets in %

Return on equity (ROE) = Net income for the year / Average equity in %

OMV PETROM S.A.
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016

Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards

TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OMV Petrom S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OMV Petrom S.A. ("the Company") which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and 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 financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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, 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of the carrying value of property, plant and equipment (Upstream)</p> <p>The carrying value of the Upstream property, plant and equipment amounted to RON 20,789 million as at 31 December 2016.</p> <p>Declines in crude oil and gas prices since 2014 have had a significant effect on the carrying value of the Company’s Upstream tangible assets, as reflected by the Upstream impairment charges recorded in the 2015 financial statements.</p> <p>Under IFRS, an entity is required to assess whether impairment indicators exist. The assessment of whether there is an indication that an asset may be impaired requires significant judgement.</p> <p>The management established that the main risks and consequently the potential triggering events are estimates regarding long term Brent oil price, production volumes and production costs.</p> <p>The Company’s disclosures about property, plant and equipment and related triggering events analysis are included in Note 2 (Judgements, Estimates and Assumptions) and Note 6 (Property, Plant and Equipment) to the financial statements.</p>	<p>We evaluated and tested management’s assessment of the potential impairment indicators. Specifically our work included, but was not limited to the following procedures:</p> <ul style="list-style-type: none"> • Analysis and evaluation of management’s assessment of the existence of impairment indicators (triggering events); • Comparison of the average oil price in 2016 with the estimated oil price in the budget prepared for 2016; • Comparison of the actual production volumes and costs in 2016 of each cash generating unit with the production volumes and costs estimates in the budget prepared for 2016; • Comparison of future short and long term oil and gas prices used in the Company’s budgets to consensus analysts’ forecasts and those adopted by other international oil companies; • Assess the historical accuracy of management’s budgets and forecasts by comparing them to actual performance and to prior year; and • Check if there are significant downward revisions of oil and gas reserves to determine if they represent impairment indicators.

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 2,426 million at 31 December 2016, after a write off (impairment) of RON 120 million in 2016.</p> <p>Under IFRS 6, Exploration for and Evaluation of Mineral Resources, exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p> <p>The assessment of the carrying value requires management to apply significant judgements and estimates in assessing whether any impairment has arisen at year end, and in quantifying any such impairment.</p> <p>The key estimates and assumptions relate to management's intention to proceed with a future work program for a prospect or licence, the likelihood of licence renewal, and the success of drilling and geological analysis to date.</p> <p>The Company's disclosures about intangible E&E assets and related impairment testing are included in Note 2 (Judgements, Estimates and Assumptions), Note 5 (Intangible Assets) and Note 20 (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 Company's accounting policy. Specifically our work included, but was not limited to, the following procedures:</p> <ul style="list-style-type: none"> • Assess the management's intention to carry out exploration and evaluation activity for the main E&E projects, which included discussions with management and review of the Executive Board minutes of meetings where exploration plans and strategies were discussed; • Read Executive Board minutes of meetings and consider whether there were negative indicators that certain projects might be unsuccessful. Discuss with the management about the status of the largest exploration projects; • Test of actual versus budget analysis prepared by management for exploration and evaluation largest projects and inspection of evidence supporting the analysis to determine if there is any indication that certain projects might be unsuccessful; • Assess whether the Company 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; • Identification of the existence of any fields where the Company's right to explore is either at, or close to, expiry and review management's assessment whether there are any risks related to renewal of the licence; and • Review of supporting evidence where an exploration and evaluation asset has been impaired.

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 Company's performance. Furthermore, they have an impact on the financial statements as they are the basis for production profiles in future cash flow estimates and basis for depreciation and amortization for the core assets in the Upstream segment.</p> <p>The estimation of oil and gas reserves requires significant judgement and assumptions made by management and engineers.</p> <p>The Company'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"> • Perform a detailed understanding of the Company's internal process and related documentation flow and key controls associated with the oil and gas reserves estimation process; • Test Company-wide key controls over the reserves review process; • Analysis of the internal certification process for technical and commercial specialists who are responsible for oil and gas reserves estimation; • Assess the competence of both internal and external specialists and the objectivity and independence of external specialists, to consider whether they were appropriately qualified to carry out the estimation of oil and gas reserves; • Analyse the report of the external specialists on their audit of Company's estimated oil and gas reserves as at 31 December 2015; • Test whether significant additions or reductions in oil and gas reserves were made in the appropriate period and in compliance with the Company's Reserves and Resources Technical Standards and Guidelines; and • Test that the updated oil and gas reserves estimates were included appropriately in the Company's consideration of impairment and in accounting for depreciation and amortization.

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 8,113 million and RON 377 million respectively at 31 December 2016.</p> <p>The Company'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 Company's disclosures about decommissioning, restoration and environmental obligations are included in Note 2 (Judgements, Estimates and Assumptions) and Note 13 (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"> • Perform a detailed understanding of the Company's internal provision estimation process and the related documentation flow and the assessment of the design and implementation of the controls within the process; • Compare current estimates of decommissioning, restoration and environmental costs with the actual costs incurred in previous periods. Where no previous data was available, we have reconciled cost estimates to third party support or the Company's engineers' estimates; • Discuss with the management the estimates of allocation over time of works to be performed for surface and subsurface decommissioning for wells; • Inspection of supporting evidence for any material revisions in cost estimates during the year; • Assess the sensitivity analyses to understand the potential impact of reasonable changes in assumptions on the provisions recorded; • Involvement of our valuation specialists to assist us in performing industry benchmarking and analysis over discount rates and inflation rates; and • Test of the mathematical accuracy of management's decommissioning and restoration provision and environmental provision calculations.

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 Company 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 Company has recorded as receivable from the Romanian State the estimated decommissioning obligations having a net present value of RON 2,130 million as at December 31, 2016 and the environmental liabilities in Upstream and Downstream Oil with a total net present value of RON 328 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 Company's disclosures about Environmental and Decommissioning State Receivables are included in Note 8 (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 Company for historical environmental losses and abandonment costs, provided certain conditions are met; • Review the management's assessment of the recoverability of the receivables from the Romanian State, including the history of amounts claimed vs. amounts accepted and reimbursed, and discuss about the status of the notices of claims submitted by the Company and of the Arbitration process; • Trace the receivables for which notices of claim have been submitted to the respective notices of claims; • Trace the receivables for which decommissioning was performed but the notices of claim have not yet been submitted to the respective decommissioning costs; • Trace the receivables for which decommissioning has not yet been performed against the respective decommissioning provisions; • Discuss with the management the estimates of timing of collection; and • Test of the mathematical accuracy of the calculation of the net present value of the receivables recorded.

Other information

The other information comprises the Annual report prepared for OMV Petrom Group, the Supervisory Board Report which includes the Director's Report, and the Report on payments to governments, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the 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 Directors' 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 financial statements as at 31 December 2016;
- 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 entity and its environment gained during our audit of the financial statements as at 31 December 2016, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

On behalf of

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors in Romania
No. 77/15 August 2001

Name of signing person: Bogdan Ion



Registered with the Chamber of Financial Auditors in Romania
No. 1565/29 July 2004

Bucharest, Romania
23 March 2017

OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	<u>December 31, 2016</u>	<u>December 31, 2015</u>
ASSETS			
Intangible assets	5	2,513.65	2,411.08
Property, plant and equipment	6	26,199.73	27,087.03
Investments	7	1,826.44	1,800.90
Other financial assets	8	3,530.35	3,641.17
Other assets	9	63.62	66.92
Deferred tax assets	17	<u>1,478.16</u>	<u>1,492.98</u>
Non-current assets		<u>35,611.95</u>	<u>36,500.08</u>
Inventories	10	1,508.38	1,556.92
Trade receivables	8	1,393.07	1,216.01
Other financial assets	8	505.75	394.35
Other assets	9	229.30	452.25
Cash and cash equivalents		<u>1,853.76</u>	<u>666.21</u>
Current assets		<u>5,490.26</u>	<u>4,285.74</u>
Assets held for sale	11	<u>260.34</u>	<u>108.59</u>
Total assets		<u>41,362.55</u>	<u>40,894.41</u>
EQUITY AND LIABILITIES			
Share capital	12	5,664.41	5,664.41
Reserves		<u>20,336.40</u>	<u>19,426.78</u>
Total equity		<u>26,000.81</u>	<u>25,091.19</u>
Provisions for pensions and similar obligations	13	217.24	231.88
Interest-bearing debts	14	725.69	903.66
Provisions for decommissioning and restoration obligations	13	7,764.92	7,798.15
Other provisions	13	2,532.97	2,280.87
Other financial liabilities	15	<u>158.27</u>	<u>245.18</u>
Non-current liabilities		<u>11,399.09</u>	<u>11,459.74</u>

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

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

	Notes	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trade payables		1,689.84	1,817.57
Interest-bearing debts	14	733.54	551.15
Income tax liabilities		84.44	65.80
Other provisions and decommissioning	13	670.68	879.37
Other financial liabilities	15	177.12	517.30
Other liabilities	16	<u>481.36</u>	<u>512.29</u>
Current liabilities		<u>3,836.98</u>	<u>4,343.48</u>
Liabilities associated with assets held for sale	11	<u>125.67</u>	<u>-</u>
Total equity and liabilities		<u>41,362.55</u>	<u>40,894.41</u>

These financial statements were approved on March 23, 2017.



Mariana Gheorghe
 Chief Executive Officer



Andreas Matje
 Chief Financial Officer



Peter Zeilinger
 Executive Board Member
 Upstream



Lăcrămioara Diaconu-Pintea
 Executive Board Member Downstream
 Gas



Neil Morgan
 Executive Board Member
 Downstream Oil



Irina-Nadia Dobre
 Director Finance Department



Nicoleta-Mihaela Drumea
 Head of Financial Reporting

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Sales revenues	25	12,593.86	13,952.49
Direct selling expenses		(7.45)	(11.96)
Cost of sales		<u>(10,885.64)</u>	<u>(13,473.75)</u>
Gross profit		<u>1,700.77</u>	<u>466.78</u>
Other operating income	18	407.00	411.76
Selling expenses		(299.98)	(307.71)
Administrative expenses		(83.78)	(115.48)
Exploration expenses		(262.19)	(576.61)
Other operating expenses	19	<u>(572.06)</u>	<u>(473.92)</u>
Earnings before interest and taxes (EBIT)	25	<u>889.76</u>	<u>(595.18)</u>
Income from investments	21	392.20	585.49
Interest income	22	200.01	268.55
Interest expenses	22	(325.42)	(400.75)
Other financial income and expenses	23	<u>(104.84)</u>	<u>(554.94)</u>
Net financial result		<u>161.95</u>	<u>(101.65)</u>
Profit/ (loss) before taxation		<u>1,051.71</u>	<u>(696.83)</u>
Taxes on income	24	<u>(143.86)</u>	<u>66.19</u>
Net income/ (loss) for the year		<u>907.85</u>	<u>(630.64)</u>

These financial statements were approved on March 23, 2017.



Mariana Gheorghe
Chief Executive Officer



Andreas Matje
Chief Financial Officer



Peter Zeilinger
Executive Board Member Upstream



Lăcrămioara Diaconu-Pințea
Executive Board Member
Downstream Gas



Neil Morgan
Executive Board Member
Downstream Oil



Irina-Nadia Dobre
Director Finance Department



Nicoleta-Mihaela Drumea
Head of Financial Reporting

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Net income/ (loss) for the year	907.85	(630.64)
Unrealized gains on hedges	-	65.42
Realized gains on hedges recycled to income statement	<u>(14.21)</u>	<u>(51.21)</u>
Total of items that may be reclassified ("recycled") subsequently to the income statement	<u>(14.21)</u>	<u>14.21</u>
Remeasurement gains on defined benefit plans	<u>15.95</u>	<u>34.14</u>
Total of items that will not be reclassified ("recycled") subsequently to the income statement	<u>15.95</u>	<u>34.14</u>
Income tax relating to items that may be reclassified ("recycled") subsequently to the income statement	2.27	(2.27)
Income tax relating to items that will not be reclassified ("recycled") subsequently to the income statement	(2.55)	(5.47)
Total income tax relating to components of other comprehensive income	<u>(0.28)</u>	<u>(7.74)</u>
Other comprehensive income for the year, net of tax	<u>1.46</u>	<u>40.61</u>
Total comprehensive income/ (loss) for the year	<u>909.31</u>	<u>(590.03)</u>

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Cash flow hedging reserves</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>
Balance at January 1, 2016	5,664.41	12,895.66	6,519.20	11.94	(0.02)	25,091.19
Net income for the year	-	907.85	-		-	907.85
Other comprehensive income/(loss) for the year	-	13.40	-	(11.94)	-	1.46
Total comprehensive income/(loss) for the year	-	921.25	-	(11.94)	-	909.31
Other increases	-	-	0.31	-	-	0.31
Balance at December 31, 2016	5,664.41	13,816.91	6,519.51	-	(0.02)	26,000.81

Note: For details on equity components, see Note 12.

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
(all amounts are expressed in million RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Cash flow hedging reserves</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>
Balance at January 1, 2015	5,664.41	14,132.04	6,519.20	-	(0.02)	26,315.63
Net loss for the year	-	(630.64)	-		-	(630.64)
Other comprehensive income for the year	-	28.67	-	11.94	-	40.61
Total comprehensive income/(loss) for the year	-	(601.97)	-	11.94	-	(590.03)
Dividends distribution	-	(634.41)	-	-	-	(634.41)
Balance at December 31, 2015	5,664.41	12,895.66	6,519.20	11.94	(0.02)	25,091.19

Note: For details on equity components, see Note 12.

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2016	December 31, 2015
Cash flow from operating activities			
Profit/ (loss) before taxation		1,051.71	(696.83)
Adjustments for:			
Dividend income	21	(392.20)	(585.49)
Interest income	22	(166.78)	(225.55)
Interest expenses and other financial expenses	22, 23	68.19	86.38
Net movement in provisions and allowances for:			
- Financial assets		3.70	172.18
- Inventories		(72.74)	11.99
- Receivables		230.79	31.94
- Pensions and similar liabilities		1.31	(9.24)
- Decommissioning and restoration obligations		(16.83)	(47.96)
- Other provisions for risk and charges		3.35	271.94
Discounting/Write-off of receivables and other similar items		42.97	115.19
(Gain)/Loss on disposals of financial assets		0.07	(0.29)
Gain on disposals of non-current assets	18, 19	(11.23)	(5.96)
Depreciation, amortization and impairment expense, net	5, 6, 20	3,248.48	6,128.33
Other non-cash items		(42.10)	(101.06)
Dividends received		392.20	585.49
Interest received		40.50	233.92
Interest paid		(55.19)	(295.55)
Tax on profit paid		(110.55)	(620.89)
Cash generated from operating activities before working capital movements		4,215.65	5,048.54
Decrease in inventories		52.72	230.81
(Increase)/Decrease in receivables and other assets		(101.27)	775.95
Decrease in liabilities		(32.73)	(84.55)
Net cash generated from operating activities		4,134.37	5,970.75
Cash flow from investing activities			
Investments			
Intangible assets and property, plant and equipment		(2,796.93)	(4,854.71)
Investments in subsidiaries	28	(0.92)	(91.89)
Net loans reimbursed/ (given) by (to) subsidiaries		(73.39)	88.52
Disposals			
Proceeds from sale of non-current assets		22.09	63.14
Proceeds from disposal of financial assets	28	0.15	197.81
Net cash used for investment activities		(2,849.00)	(4,597.13)
Cash flow from financing activities			
Increase in/ (Repayment of) loans taken from subsidiaries		216.17	(878.59)
Net repayment of other borrowings	28	(313.76)	(152.61)
Dividends paid		(0.51)	(630.59)
Net cash used for financing activities		(98.10)	(1,661.79)
Effect of foreign exchange rate changes on cash and cash equivalents		0.28	8.79
Net increase/(decrease) in cash and cash equivalents		1,187.55	(279.38)
Cash and cash equivalents at the beginning of the year		666.21	945.59
Cash and cash equivalents at the end of the year		1,853.76	666.21

The notes on pages 17 to 80 form part of these financial statements.

OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION

OMV Petrom S.A. (22 Coralilor Street, 013329 Bucharest, Romania), hereinafter referred to also as “the Company” or “OMV Petrom”, 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.

Shareholders’ structure as at December 31, 2016 was as follows:

	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	12.57%
Legal entities and private individuals	15.78%
Total	100.00%

Shareholders’ structure as at December 31, 2015 was as follows:

	Percent
OMV Aktiengesellschaft	51.01%
Romanian State	20.64%
Fondul Proprietatea S.A.	18.99%
Legal entities and private individuals	9.36%
Total	100.00%

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

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

As of December 31, 2016 the number of GDRs is 1,756,419, equivalent of 263,462,850 ordinary shares, representing 0.0047% from the share capital.

Statement of compliance

The separate financial statements (“financial statements”) of the Company have been prepared in accordance with the provisions of Ministry of Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

The Company also prepares consolidated financial statements in accordance with IFRS as endorsed by the EU, which are available on the Company’s website www.omvpetrom.com/portal/01/petromcom/petromcom/OMV_Petrom/Relatia_cu_investitorii.

The financial year corresponds to the calendar year.

Basis of preparation

The financial statements of OMV Petrom S.A. are presented in RON (“Romanian Leu”), using going concern principles. All values are presented in millions, rounded to the nearest two decimals. The financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value. For financial assets and liabilities where fair value differs from carrying amounts at the reporting date, fair values have been disclosed in Note 29.

OMV PETROM S.A.
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2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the 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 Company's exposure to risks and uncertainties in relation to capital management and financial risk management and policies are included in Note 32.

Changes in estimates are accounted for prospectively.

Correction of material prior period errors is made retrospectively, on account of retained earnings, by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Errors which are not material are corrected in the period when they are discovered, through 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 Company based its assumptions and estimates on parameters available when the 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 Company. Such changes are reflected in the assumptions when they occur.

a) Oil and gas reserves

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

The oil and gas assets are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2016 is shown in Note 5 and 6.

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

b) Decommissioning costs

The Company'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 Company at the end of the operating life of some of the facilities and properties.

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2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates of future restoration costs are based on current contracts concluded with suppliers, reports issued by OMV Petrom engineers as well as past experience. Provisions for restoration costs require estimates of discount rates and inflation rates. These estimates have a material effect on the amount of the provisions (see Note 13).

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

Impairment testing in Upstream

Based on management estimations regarding long term Brent oil price, production volumes and production costs, it was concluded that there are no triggering indicators for performing an impairment test for Upstream CGUs in 2016, either due to indicators of additional impairment or due to indicators for a reversal of impairment.

In 2015, considering the significant decline in oil prices and increased market volatility, the Company considered that indications of impairment were present. As a result, an impairment test was performed for the Upstream CGUs of the Company as of December 31, 2015.

The nominal oil price assumptions and the RON/USD exchange rate used for impairment testing as of December 31, 2015 are listed below:

	2016	2017	2018	2019	2020 and thereafter
Brent oil price (USD/bbl)	40	55	65	70	75
RON/USD exchange rate	3.91	3.91	3.91	3.91	3.91
Brent oil price (RON/bbl)	156	215	254	274	293

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. The revised assumptions led to total impairments of RON 2,460.67 million recognized in 2015, covering mainly oil and gas production assets. Recoverable amount of assets impaired, computed with an after-tax discount rate of 7.79%, is RON 3,710.61 million as of December 31, 2015.

The pre-tax discount rates used as of December 31, 2015 ranged between 6.81% and 10.10%. The recoverable amounts were based on the value in use.

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2. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment testing in Downstream

Based on management estimations regarding long term power market development in respect of spark spreads and net electrical output, it was concluded that there are no triggering indicators for performing an impairment test for Brazi power plant in 2016 and 2015.

d) Exploration and evaluation expenditure

The application of the Company'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 the income statement in the period when the new information becomes available.

e) Recoverability of State receivable

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

Judgments

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

a) Cash generating units

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

b) Contingencies

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

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3. ACCOUNTING AND VALUATION PRINCIPLES

3.1. 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 amendments to the existing standards which have been adopted by the Company as of 1 January 2016, but had no significant effects on the financial statements:

- **IAS 27 Separate Financial Statements (amended)**
The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. In 2016, management did not make use of this amendment.
- **IAS 1: Disclosure Initiative (Amendment)**
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments.
- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.
- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**
The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.
- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**
The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016.

3.2. New or revised standards and interpretations not yet mandatory

At the date of authorization of these financial statements the following standards, revisions and interpretations were issued by IASB, but are not yet effective and were not early adopted by the Company:

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company is currently assessing the impact of adopting IFRS 9 on the Company's financial statements. IFRS 9 is not expected to significantly change the recognition and measurement of OMV Petrom S.A. financial assets and liabilities.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

The Company is currently assessing the impact of adopting IFRS 15 on the Company's separate financial statements. In this assessment the clarifications issued by the IASB in April 2016 are considered and any further developments are monitored. The Company plans to adopt the new standard in its separate financial statements for the year ending 31 December 2018, using the cumulative effect method.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

- **IFRS 16: Leases**

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'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Company is currently assessing the impact of adopting IFRS 16 on its financial statements. The most significant potential impact identified so far is that the Company might have to recognize new assets and liabilities for all or some of its operating leases, depending on the results of the analysis. In this case, in the income statement, depreciation charges and interest expense would be reported instead of lease expense. Some commitments may be covered by the exceptions for short-term and low-value leases. There is no significant impact expected on the existing finance leases.

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

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

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

The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

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

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

- **IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration**

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

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of adopting these amendments on its financial statements, and it does not expect it to be significant.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

3.3. Summary of accounting and valuation principles

a) 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.

b) 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 the income statement.

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

c) 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 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.

d) 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.

e) Intangible assets and property, plant and equipment

Intangible assets acquired by the Company 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 income 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 cost of sales, selling expenses or as administrative expenses.

Intangible assets	Useful life (years)
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
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 Company 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 upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

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

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 Company, 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 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 reporting date for any indications of impairment. For intangible assets with indefinite useful lives, impairment tests are carried out annually. This applies even if there are no indications of impairment.

If any indication exists, or when annual impairment test for an asset is required, the Company estimates the asset's recoverable amount, being the higher of fair value less costs of disposal and its value in use.

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized to reduce the asset to its lower recoverable amount. Impairment losses are recognized in the income statement in expense categories consistent with the function of the impaired asset.

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

f) 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

g) Leases

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

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

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

h) Financial instruments

Non-derivative financial assets

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

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

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

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

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

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Other investments are measured at acquisition cost less any impairment losses.

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

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability that reflects the rights and obligations that the Company has retained. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

Non-derivative financial liabilities

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

After initial measurement, liabilities are carried at amortized cost, with the exception of derivative financial instruments, which are recognized at fair value. Long-term liabilities are discounted using the effective interest rate method (EIR). Gains and losses are recognized in income statement when the liabilities are derecognized as well as through the EIR amortization process.

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

Derivative financial instruments

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

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

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

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, are accounted for as financial instruments. However, contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company'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.

i) 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.

j) Government grants

Government grants – except for emission rights (see Note 3l) – 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.

k) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of activity less any selling expenses.

Cost of producing crude oil and gas and refined petroleum products is accounted on weighted average basis, and includes all costs incurred in the normal course of business in bringing each product to its present location and condition, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity.

Appropriate allowances are made for any obsolete or slow moving stocks based on the management's assessments.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

l) 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 Company'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 the Company, part of its decommissioning and environmental costs will be reimbursed by the Romanian State. The portion to be reimbursed by the Romanian State has been presented as receivable and reassessed in order to reflect the current best estimate of the costs 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 OMV Petrom 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 Company obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The unwinding of the environmental provision is presented as part of the interest expenses in the Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The effect of changes in discount rate and timing assumptions for the receivables from the Romanian State which are additional to the changes in discount rates and timing assumptions for decommissioning costs and environmental costs is presented in the Income Statement under interest expenses or interest income.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Provisions for pensions and severance payments are calculated using the projected-unit-credit method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Actuarial gains/losses are recognized in full in the period in which they occur as follows: for pensions in other comprehensive income and for other obligations in the income statement.

Provisions for voluntary and involuntary separations under restructuring programs are recognized if a detailed plan has been approved by management prior to statement of financial position date, and an irrevocable commitment is thereby established. Voluntary amendments to employees' remuneration arrangements are recognized if the respective employees have accepted the Company's offer. Provisions for obligations under individual separation agreements are recognized at the present value of the obligation where the amounts and dates of payment are fixed and determined.

Emission allowances received free of cost from governmental authorities (EU Emissions Trading Scheme for greenhouse gas emissions allowances) reduce obligations for CO₂ emissions and are recognized based on net approach for Government Grant (i.e. zero value in accounting). Provisions are recognized only for shortfalls. The provision for a shortfall is initially measured at the best estimation of expenditure required to settle the obligation, which is the market price of the emission rights at the closing date. The related expense is recognized as emission costs, included in cost of sales. If, subsequently to the recognition of a provision, emission rights are purchased then an asset is only recognized for the excess of the emission rights over the CO₂ emissions. Any price difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

m) 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 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 recognised 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or 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 recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in income statement.

Deferred tax assets and deferred tax liabilities at Company level are shown net, if there is a legally enforceable right to offset and the deferred taxes relate to matters subject to the same tax jurisdiction.

Production taxes

Royalties are based on the value of oil and gas production and are included in the income statement under cost of sales.

n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other incentives.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest income is accrued using the effective interest rate, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

o) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash is considered to be cash on hand and in operating accounts in banks. Cash equivalents represent deposits and highly liquid investments with maturities of less than three months.

p) 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.

As of 31 December 2016 and 31 December 2015 the Company has interests only in joint operations.

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

In relation to its interests in joint operations, the Company 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 Company 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 Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation, line by line, in its 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 31.

q) Investments in subsidiaries and associates

The investments in subsidiaries and associates are accounted for at cost less impairment losses.

4. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are converted into RON at the exchange rate on the balance sheet date, communicated by the National Bank of Romania:

Exchange rates	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Euro (EUR)	4.5411	4.5245
US dollar (USD)	4.3033	4.1477

All differences resulting from foreign currency amounts settlements are recognized in income statement in the year they occurred. Unrealized foreign exchange gains and losses related to monetary items are recognized in income statement for the year.

The functional currency of the Company, assessed in accordance with IAS 21, is the RON.

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5. INTANGIBLE ASSETS

	Concessions, licences and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2016	1,297.47	3,088.30	4,385.77
Additions*)	(12.37)	242.32	229.95
Transfers to tangible assets (Note 6)	(0.80)	(0.45)	(1.25)
Disposals	(0.19)	(682.95)	(683.14)
Balance as at December 31, 2016	1,284.11	2,647.22	3,931.33
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2016	1,190.20	784.49	1,974.69
Amortization	6.11	-	6.11
Impairment	-	119.89	119.89
Disposals	(0.19)	(682.82)	(683.01)
Balance as at December 31, 2016	1,196.12	221.56	1,417.68
CARRYING AMOUNT			
As at January 1, 2016	107.27	2,303.81	2,411.08
As at December 31, 2016	87.99	2,425.66	2,513.65

*) Include the amount of RON 0.32 million representing increase from the reassessment of decommissioning asset for exploration wells (under category "Oil and gas assets with unproved reserves"), and were reduced by the amount of RON 13.09 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 8), reflected under category "Concessions, licenses and other intangible assets".

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6. PROPERTY, PLANT AND EQUIPMENT

COST	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
Balance as at January 1, 2016	2,378.23	34,247.94	9,198.67	364.90	569.08	46,758.82
Additions **)	20.41	2,159.72	(49.38)	0.13	286.26	2,417.14
Transfers *	12.13	(28.37)	265.20	12.95	(260.66)	1.25
Transfers to assets held for sale	(4.16)	(265.66)	(2.37)	(5.77)	-	(277.96)
Disposals	(36.93)	(427.16)	(294.91)	(30.17)	(82.84)	(872.01)
Balance as at December 31, 2016	2,369.68	35,686.47	9,117.21	342.04	511.84	48,027.24
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at January 1, 2016	808.88	14,310.05	4,203.76	227.93	121.17	19,671.79
Depreciation	99.08	2,043.42	633.36	23.92	-	2,799.78
Impairment	1.30	308.42	7.51	1.36	9.46	328.05
Transfers *	0.13	(0.72)	0.59	-	-	-
Transfers to assets held for sale	(1.22)	(110.10)	(1.28)	(4.93)	-	(117.53)
Disposals	(27.45)	(422.48)	(286.99)	(29.48)	(82.84)	(849.24)
Write-ups	(0.17)	(1.90)	(3.06)	-	(0.21)	(5.34)
Balance as at December 31, 2016	880.55	16,126.69	4,553.89	218.80	47.58	21,827.51
CARRYING AMOUNT						
As at January 1, 2016	1,569.35	19,937.89	4,994.91	136.97	447.91	27,087.03
As at December 31, 2016	1,489.13	19,559.78	4,563.32	123.24	464.26	26,199.73

*) Net amount represents transfers from intangibles. See Note 5.

**) Include the amount of RON 171.62 million representing increase from reassessment of the decommissioning asset and the amount of RON 13.91 million representing additions in finance lease, mainly for equipment used for production of electricity and were reduced by the amount of RON 186.22 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 8), reflected under the categories "Land, land rights and buildings, incl. buildings on third-party property" (RON 2.17 million), "Plant and machinery" (RON 183.16 million), and "Other fixtures and fittings, tools and equipment" (RON 0.89 million).

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 224.13 million as at December 31, 2016 (2015: RON 255.79 million).

Expenditure capitalized in the course of construction of tangible and intangible assets includes an amount of RON 452.34 million (2015: RON 573.84 million).

For details on impairments see Note 20.

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7. INVESTMENTS

As at December 31, 2016 the Company had investments in the following companies:

<u>Company Name</u>	<u>Field of activity</u>	<u>Share interest percent</u>	<u>Cost</u>	<u>Valuation allowance</u>	<u>Net book value</u>
<u>Subsidiaries</u>					
OMV Petrom Marketing S.R.L.	Fuel distribution	100.00%	1,389.86	-	1,389.86
Petrom Moldova S.R.L.	Fuel distribution	100.00%	122.57	(101.03)	21.54
Tasbulat Oil Corporation LLP*	Oil exploration and production in Kazakhstan	100.00%	307.64	(307.64)	-
OMV Petrom Gas S.R.L.	Gas distribution	99.99%	8.65	-	8.65
OMV Petrom Aviation S.A.	Airport fuel sales	99.99%	54.14	(18.89)	35.25
Petromed Solutions S.R.L.	Medical services	99.99%	3.00	-	3.00
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.96%	181.92	-	181.92
Petrom Nadlac S.R.L.	Fuel distribution	98.51%	8.23	(7.50)	0.73
Kom Munai LLP	Oil exploration and production in Kazakhstan	95.00%	36.82	(36.82)	-
Trans Gas LPG Services S.R.L.	LPG transportation related services	80.00%	4.20	(3.03)	1.17
Petrom Exploration & Production Limited	Exploration and production services	99.99%	0.39	-	0.39
Energy Production Enhancement S.R.L.	Services incidental to oil and gas production	99.99%	0.67	-	0.67
<u>Associates</u>					
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	25.00%	45.24	-	45.24
Franciza Petrom 2001 S.A.	Fuel distribution	40.00%	0.20	(0.20)	-
Brazi Oil & Anghelescu Prod Com S.R.L.	Fuel distribution	37.70%	1.82	(1.82)	-
Asociatia Romana pentru Relatia cu Investitorii	Public representation	20.00%	0.00	-	0.00
<u>Other investments</u>					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	(0.00)	-
Telescaun Tihuta S.A.	Touristic facilities	1.68%	0.01	(0.01)	-
Credit Bank	Other financial services	0.22%	0.32	(0.32)	-
Forte Asigurari - Reasigurari S.A.	Insurance services	0.09%	0.02	(0.02)	-
Total			<u>2,303.72</u>	<u>(477.28)</u>	<u>1,826.44</u>

*) Owned through Tasbulat Oil Corporation BVI as holding company.

Note: Nil amounts are shown as "-".

Where amounts are lower than RON 0.01 million, they are shown as 0.00.

During 2016 the subsidiary ICS Petrom Moldova S.A. reorganized its legal form, becoming limited liability company Petrom Moldova S.R.L. Also, OMV Petrom increased its participation in the share capital of Petrom Moldova S.R.L. by way of debt to equity swap in amount of RON 19.35 million and set up the subsidiary Energy Production Enhancement S.R.L. in which it holds 99.99% interest.

During 2016, the subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH were liquidated.

As at December 31, 2016 the investment in OMV Petrom Wind Power S.R.L. in amount of RON 14.97 million is presented under assets held for sale (see note 11).

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7. INVESTMENTS (continued)

As at December 31, 2015 the Company had investments in the following companies:

Company Name	Field of activity	Share interest percent	Cost	Valuation allowance	Net book value
<u>Subsidiaries</u>					
OMV Petrom Marketing S.R.L.	Fuel distribution	100.00%	1,389.86	-	1,389.86
ICS Petrom Moldova S.A.	Fuel distribution	100.00%	103.22	(103.22)	-
Tasbulat Oil Corporation LLP*	Oil exploration and production in Kazakhstan	100.00%	307.64	(307.64)	-
OMV Petrom Gas S.R.L.	Gas distribution	99.99%	8.65	-	8.65
OMV Petrom Aviation S.A.	Airport fuel sales	99.99%	54.14	(24.06)	30.08
Petromed Solutions S.R.L.	Medical services	99.99%	3.00	-	3.00
OMV Petrom Ukraine E&P GmbH	Oil & gas exploration in Ukraine	100.00%	0.04	-	0.04
OMV Petrom Ukraine Finance Services GmbH	Other services	100.00%	0.18	-	0.18
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.96%	181.92	-	181.92
Petrom Nadlac S.R.L.	Fuel distribution	98.51%	8.23	(5.62)	2.61
Kom Munai LLP	Oil exploration and production in Kazakhstan	95.00%	36.82	(36.82)	-
Trans Gas LPG Services S.R.L.	LPG transportation related services	80.00%	4.20	(3.03)	1.17
Petrom Exploration & Production Limited	Exploration and production services	99.99%	0.13	-	0.13
<u>Associates</u>					
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	25.00%	45.24	-	45.24
Franciza Petrom 2001 S.A.	Fuel distribution	40.00%	0.20	(0.20)	-
Brazi Oil & Anghelescu Prod Com S.R.L.	Fuel distribution	37.70%	1.82	(1.82)	-
Asociatia Romana pentru Relatia cu Investitorii	Public representation	20.00%	0.00	(0.00)	-
<u>Other investments</u>					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	(0.00)	-
Telescaun Tihuta S.A.	Touristic facilities	1.68%	0.01	(0.01)	-
Credit Bank	Other financial services	0.22%	0.32	(0.32)	-
Forte Asigurari - Reasigurari S.A.	Insurance services	0.09%	0.02	(0.02)	-
Total			2,283.66	(482.76)	1,800.90

*) Owned through Tasbulat Oil Corporation BVI as holding company.

Note: Nil amounts are shown as "-".

Where amounts are lower than RON 0.01 million, they are shown as 0.00.

As at December 31, 2015 the investment in OMV Petrom Wind Power S.R.L. in amount of RON 16.96 million was presented under assets held for sale (see note 11).

During 2015 OMV Petrom stake in fully consolidated subsidiary Petrom Exploration & Production Limited increased from 50.00% to 99.99%, and during 2016 further increased by 0.003 percentage points. Also, the investments in Petrochemicals Arges S.R.L, Fontegas Peco Mehedinti S.A. and Agribac S.A. were written off during 2015, following deregistration of these companies. The investment in Benz Oil S.A. was sold during 2015.

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7. INVESTMENTS (continued)

The details about addresses, equity and profit or loss of the companies in which OMV Petrom holds an interest of at least 20%, except for Franciza Petrom 2001 S.A. and Brazi Oil & Anghelescu Prod Com S.R.L., which are in liquidation and Asociatia Romana pentru Relatia cu Investitorii, which does not have activity, are shown in the following table. Amounts are taken from the latest approved financial statements of the subsidiaries and the associate (for the year ended December 31, 2015), except for Energy Production Enhancement S.R.L. which was set up during 2016.

<u>Company Name</u>	<u>Address</u>	<u>Currency</u>	<u>Equity at December 31, 2015 (in million currency)</u>	<u>Profit or (loss) for the year ended December 31, 2015 (in million currency)</u>
<u>Subsidiaries</u>				
OMV Petrom Marketing S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	1,867.78	331.01
Petrom Moldova S.R.L.	269 Muncesti Boulevard, Chisinau, Moldova	MDL	(20.23)	5.36
Tasbulat Oil Corporation LLP*	Aktau, Microdistrict 4, Mangistau Region, Kazakhstan	KZT	(63,158.67)	(10,103.29)
OMV Petrom Gas S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	31.07	27.70
OMV Petrom Aviation S.A.	31A Aurel Vlaicu, Otopeni, Ilfov County, Romania	RON	32.63	0.96
Petromed Solutions S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	5.06	1.54
OMV Bulgaria OOD	90 Tsarigradsko Shose Blvd., Sofia 1784, Bulgaria	BGN	154.72	33.52
OMV Srbija DOO	Omladinskih brigada 90a, Belgrade, Serbia	RSD	6,676.23	1,011.68
Petrom Nadlac S.R.L.	FN Calea Aradului, Nadlac, Arad County, Romania	RON	0.34	4.21
Kom Munai LLP	Aktau, Microdistrict 4, Mangistau Region, Kazakhstan	KZT	(92,762.31)	(15,225.64)
OMV Petrom Wind Power S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	17.54	(7.11)
Trans Gas LPG Services S.R.L.	31A Aurel Vlaicu, Otopeni, Ilfov County, Romania	RON	1.47	1.24
Petrom Exploration & Production Limited	20 Hill Street, Douglas, Isle of Man	EUR	0.02	(0.02)
Energy Production Enhancement S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	Not applicable	Not applicable
<u>Associate</u>				
OMV Petrom Global Solutions S.R.L.	22 Coralilor Street, District 1, Bucharest, Romania	RON	198.36	16.83

*) Owned through Tasbulat Oil Corporation BVI as holding company.

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7. INVESTMENTS (continued)

The movements in valuation allowances for investments were as follows:

	<u>Year 2016</u>
January 1	482.76
Additions / (releases)	(9.54)
Disposals	-
Transfers from loans given to subsidiaries	4.06
December 31	477.28

8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

a) Trade receivables are amounting to RON 1,393.07 million as at December 31, 2016 (2015: RON 1,216.01 million). They are presented net of impairment allowances, which are detailed in 8 c) below.

b) Other financial assets (net of allowances)

	<u>December 31,</u> <u>2016</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Loans to subsidiaries (Note 27)	1,272.87	299.69	973.18
Expenditure recoverable from Romanian State	2,458.51	-	2,458.51
Derivative financial assets	-	-	-
Other financial assets	304.72	206.06	98.66
Total	4,036.10	505.75	3,530.35

	<u>December 31,</u> <u>2015</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Loans to subsidiaries (Note 27)	1,191.01	141.22	1,049.79
Expenditure recoverable from Romanian State	2,571.15	9.61	2,561.54
Derivative financial assets	105.16	105.16	-
Other financial assets	168.20	138.36	29.84
Total	4,035.52	394.35	3,641.17

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 2,130.40 million as at December 31, 2016 (2015: RON 2,330.60 million) and the environmental liabilities in Upstream and Downstream Oil with net present value of RON 328.11 million (2015: RON 240.55 million), as these were existing prior to privatization of OMV Petrom S.A.

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8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

In April 2016, OMV AG submitted to the Romanian State a notice of dispute regarding certain notices of claims unpaid by the Romanian State in relation to certain well decommissioning and environmental restoration obligations amounting to approximately RON 153 million. Starting with the serving of the notice of dispute, based on the Privatisation Agreement, OMV AG and the Romanian State had 180 days to amicably resolve this dispute. This deadline expired on 19 October 2016 and on 7 March 2017 OMV AG, as part in privatization agreement, initiated arbitration proceedings against the Romanian State, in accordance with the International Chamber of Commerce Rules, in Paris, France.

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 in amount of RON 199.31 million (Notes 5 and 6). The present value of the financial asset as of December 31, 2016 was in amount of RON 198.80 million.

c) Valuation allowances

The movements in valuation allowances for loans to subsidiaries were as follows:

	Year 2016
January 1, 2016	4.06
Additions/ (releases)	-
Transfers to investments	(4.06)
December 31, 2016	-

The movements in valuation allowances for trade and for other financial assets were as follows:

	Valuation allowance for:		Total
	Trade receivables	Other financial assets	
January 1, 2016	85.81	489.12	574.93
Additions/ (releases)	(0.15)	285.08	284.93
Used	-	-	-
December 31, 2016	85.66	774.20	859.86

Additions related to valuation allowance for other financial assets refer mainly to reassessment of receivables considering the uncertainty regarding the expenditure recoverable from Romanian State.

The gross value of the impaired trade receivables as at December 31, 2016 is of RON 85.93 million (2015: RON 86.12 million) and the gross value of other financial assets impaired is RON 918.45 million (2015: RON 506.95 million).

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8. TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

d) The aging profile of receivables and other financial assets which were past due but not impaired was as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trade receivables		
Up to 60 days overdue	100.48	63.85
61 to 120 days overdue	-	-
More than 120 days overdue	0.67	0.66
Total	101.15	64.51
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other financial assets		
Up to 60 days overdue	0.71	1.81
61 to 120 days overdue	-	-
More than 120 days overdue	3.73	-
Total	4.44	1.81

9. OTHER ASSETS

The carrying value of other assets was as follows:

	<u>December 31, 2016</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Receivable from taxes	79.16	27.50	51.66
Prepaid expenses and deferred charges	68.53	56.57	11.96
Advance payments on fixed assets	28.16	28.16	-
Rental and lease prepayments	27.70	27.70	-
Other assets	89.37	89.37	-
Total	292.92	229.30	63.62

	<u>December 31, 2015</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Receivable from taxes	76.46	27.08	49.38
Prepaid expenses and deferred charges	101.85	84.31	17.54
Advance payments on fixed assets	232.73	232.73	-
Rental and lease prepayments	29.79	29.79	-
Other assets	78.34	78.34	-
Total	519.17	452.25	66.92

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10. INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Crude oil	357.82	462.79
Natural gas	111.61	84.67
Other materials	221.63	213.64
Work in progress	132.03	84.07
Finished products	<u>685.29</u>	<u>711.75</u>
Total	<u>1,508.38</u>	<u>1,556.92</u>

The cost of materials and goods consumed during 2016 (whether used in production or re-sold) is RON 3,807.51 million (2015: RON 3,107.42 million).

As at December 31, 2016 and 2015 there were no inventories pledged as security for liabilities.

11. ASSETS HELD FOR SALE

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Plant and equipment	160.44	-
Investments (see Note 7)	14.97	16.96
Other financial assets (see Notes 14 and 27)	<u>84.93</u>	<u>91.63</u>
Assets held for sale	<u>260.34</u>	<u>108.59</u>
Provisions (Note 13)	<u>(125.67)</u>	<u>-</u>
Liabilities associated with assets held for sale	<u>(125.67)</u>	<u>-</u>

As at December 31, 2016, the assets and liabilities held for sale refer to:

- Upstream segment in relation to 19 marginal onshore fields reclassified as assets and liabilities held for sale following the signing of a transfer agreement by OMV Petrom S.A. with Mazarine Energy Romania S.R.L. in October 2016;
- Downstream Gas segment in relation to the envisaged sale of the entire stake in, and the assignment of loan granted to the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park, in line with the Company's strategy to focus on core business. As of December 31, 2016, management expects that this transaction will be closed within the following twelve months. Fair value less costs of disposal was estimated at RON 99.90 million, triggering increases in valuation allowances for investment in and loan granted to OMV Petrom Wind Power S.R.L. of RON 13.24 million for the year ended December 31, 2016.

As at December 31, 2015, the assets held for sale referred to Downstream Gas segment in relation to the envisaged sale of the stake in and the assignment of loans granted to the subsidiary OMV Petrom Wind Power S.R.L. operating Dorobantu wind-park. Fair value less costs of disposal were estimated at RON 108.59 million, triggering increases in valuation allowances for investment in and loan granted to OMV Petrom Wind Power S.R.L. of RON 81.52 million as of December 31, 2015. Other financial assets include the net balances of cash pooling and loans granted to OMV Petrom Wind Power S.R.L. (for details see Notes 14 and 27).

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12. 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, 2016 and 2015 with a total nominal value of RON 5,664.41 million.

Reserves

Reserves include retained earnings, other non-distributable reserves (legal and geological quota facility reserves, other reserves from fiscal facilities), other reserve related to land not yet included in share capital, cash flow hedging reserves and treasury shares.

On March 23, 2017, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.015 per share. The dividend proposal is subject to further approval by the Ordinary General Meeting of Shareholders, on April 25, 2017.

At the Annual General Meeting of Shareholders held on April 26, 2016, the shareholders of OMV Petrom S.A. approved the Executive Board's proposal not to distribute dividends for the financial year 2015.

Other reserves

Geological quota is amounting to RON 5,062.84 million (2015: same amount). 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 are amounting to RON 1,132.88 million (2015: same amount). 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 314.98 million (2015: RON 248.29 million). The amount of RON 66.69 million was allocated to other reserves in the year 2016 representing fiscal facilities from reinvested profit.

Other reserves include also land for which land ownership certificates were obtained, but was not yet included in share capital.

Cash flow hedging reserves

In order to protect the Company's cash flows against further potential downturns of the crude oil price, OMV Petrom entered, in April 2015, into hedging arrangements (Zero Cost Collar options) for a volume of 15,000 bbl/d of crude oil, with a protection floor level of USD 55/bbl, for the third quarter of 2015 to the second quarter of 2016 period. These financial instruments were accounted as cash flow hedge.

In August 2015 the Company has decided to monetize in advance the outstanding hedges for the fourth quarter of 2015 to the second quarter of 2016, by contracting offsetting positions. The hedge accounting for the options contracted in April 2015 with maturities in fourth quarter of 2015 to the second quarter of 2016 period was therefore discontinued in August 2015 and the effective part reflected in other comprehensive income as at that time remained separately in equity until the forecast transactions occurred. The remaining cumulative gain recognized in other comprehensive income for the options with maturities in first two quarters of 2016, net of tax, is in amount of RON 11.94 million as at December 31, 2015 and was recycled in the income statement during 2016, when maturities were reached.

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13. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2016	231.88	8,161.65	2,796.74	11,190.27
thereof short-term	-	363.50	515.87	879.37
thereof long-term	231.88	7,798.15	2,280.87	10,310.90
Liabilities associated with assets held for sale	-	(125.67)	-	(125.67)
Used	(9.69)	(236.99)	(162.09)	(408.77)
Allocations/ (releases)	(4.95)	313.85	221.08	529.98
December 31, 2016	217.24	8,112.84	2,855.73	11,185.81
thereof short-term	-	347.92	322.76	670.68
thereof long-term	217.24	7,764.92	2,532.97	10,515.13

Provisions for pensions and similar obligations

Employees of the Company 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 3.23% (2015: 3.69%), an inflation rate of 2.40% (2015: 2.10%) and an estimated average yearly salary increase of 3.30% (2015: 4.00%).

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. The interest rate applied for calculating of decommissioning and restoration costs is 0.83% (2015: 1.59%).

Revisions in estimates for decommissioning and restoration provisions arise from the yearly reassessment of the cost of work done, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration, and revision of estimated interest rates.

In relation to part of the Company's decommissioning and restoration obligations, there is a corresponding receivable from the Romanian State, as presented in Note 8.

Details on the Decommissioning and restoration obligations are as follows:

	2016	2015
Balance as at January 1	8,161.65	7,416.88
Revisions in estimates	24.27	725.52
Unwinding effect	289.58	281.19
Used in current year	(236.99)	(261.94)
Liabilities associated with assets held for sale	(125.67)	-
Balance as at December 31	8,112.84	8,161.65

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13. PROVISIONS (continued)

The revisions in estimates impact either the assets subject to decommissioning or the related receivable from State. The unwinding effect is included in the income statement under the interest expenses line (Note 22) net of the unwinding effect on the related receivable from State. The effect of changes in discount rate or timing of the receivables from State (which are additional to the changes in discount rate or timing of the decommissioning costs) is included in the income statement under interest expenses or interest income.

Impact from revision in estimates in 2015 was generated mainly by higher estimated decommissioning costs for onshore wells.

Other provisions were as follows:

December 31, 2016	Total	less than 1 year	over 1 year
Environmental provision	376.99	64.66	312.33
Other personnel provisions	167.10	164.70	2.40
Provisions for litigations	315.34	13.43	301.91
Other	1,996.30	79.97	1,916.33
Total	2,855.73	322.76	2,532.97

December 31, 2015	Total	less than 1 year	over 1 year
Environmental provision	212.86	99.36	113.50
Other personnel provisions	163.23	160.77	2.46
Provisions for litigations	514.40	139.62	374.78
Other	1,906.25	116.12	1,790.13
Total	2,796.74	515.87	2,280.87

Environmental provisions

The environmental provisions were estimated by the management based on the list of environment related projects that must be completed by the Company. Provisions recorded as at December 31, 2016 and 2015 represent the best estimate of the Company's experts for environmental matters. Environmental provisions are computed using the same interest rates as for the decommissioning and restoration provisions.

The Company recorded certain environmental liabilities against receivable from the Romanian State in Upstream and Downstream Oil, as these obligations existed prior to privatization (Note 8b).

During 2016, OMV Petrom S.A. set-up additional environmental provision for decontamination of land plots pertaining to certain former Downstream Oil storage facilities.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by the Company further to approved restructuring plan that has been communicated to those affected by it.

Provisions for litigations

The Company monitors all litigations instigated against it and assesses the likelihood of losses and the related costs using in house lawyers and external legal advisors. The Company 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.

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13. PROVISIONS (continued)

Other provisions

As at December 31, 2016, other long-term provisions were related to the exposure in relation to the guarantees issued by OMV Petrom for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP, amounting to RON 1,916.33 million (2015: RON 1,790.13 million).

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.

Under this scheme OMV Petrom S.A. is entitled to an allocation of 2,277,940 emission certificates for year 2016 (2015: 2,281,635 emission certificates). During 2016 the Company received 2,608,152 emission certificates, out of which 1,651,062 emission certificates representing the 2015 entitlement according to article 10c) of the Directive and 957,090 emission certificates from 2016 entitlement according to article 10a) of the Directive.

During 2016 the Company had net sales of 1,480,706 emissions certificates (2015: 913,567 emissions certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2016, the Company was not short of certificates.

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14. INTEREST-BEARING DEBTS

As at December 31, 2016 and December 31, 2015 OMV Petrom S.A. had the following loans:

Interest-bearing debts short-term

Lender	December 31, 2016	December 31, 2015
European Bank for Reconstruction and Development (a)	96.27	95.92
European Investment Bank (b)	86.50	86.18
Cash pooling (c)	546.81	363.39
Accrued interest	5.42	7.12
Prepayments in relation with loan amounts drawn	(1.46)	(1.46)
Total interest-bearing debts short-term	733.54	551.15

Interest-bearing debts long-term

Lender	December 31, 2016	December 31, 2015
European Bank for Reconstruction and Development (a)	282.46	377.34
European Investment Bank (b)	447.62	532.17
Prepayments in relation with loan amounts drawn	(4.39)	(5.85)
Total interest-bearing debts long-term	725.69	903.66
thereof maturing after more than 1 year but not later than 5 years	624.06	716.27
thereof maturing after 5 years	101.63	187.39
Total interest-bearing debts	1,459.23	1,454.81

(a) For the construction of Brazi Power Plant OMV Petrom S.A. concluded an unsecured corporate loan agreement with European Bank for Reconstruction and Development, for a maximum amount of EUR 200.00 million. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The outstanding amount as at December 31, 2016 was RON 378.73 million (equivalent of EUR 83.40 million) (2015: RON 473.26 million, equivalent of EUR 104.60 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, 2016 was RON 534.12 million (equivalent of EUR 117.62 million) (2015: RON 618.35 million, equivalent of EUR 136.67 million).

(c) Cash pooling agreements with maturity on April 22, 2017, renewable each year, are signed between OMV Petrom S.A. and the following companies:

- (i) OMV Petrom Marketing S.R.L. for an amount up to RON 1,500.00 million. The balance as at December 31, 2016 amounts to RON 421.77 million (December 31, 2015: RON 214.32 million).
- (ii) OMV Petrom Global Solutions S.R.L for an amount up to RON 180.00 million (2015: RON 155.00 million). The balance as at December 31, 2016 amounts to RON 95.21 million (December 31, 2015: RON 127.96 million).
- (iii) OMV Petrom Gas S.R.L. for an amount up to RON 650.00 million. As at December 31, 2016 OMV Petrom had a receivable balance in relation to the cash pooling contract with OMV Petrom Gas S.R.L. in amount of RON 298.10 million (December 31, 2015: receivable of RON 139.81 million).

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14. INTEREST-BEARING DEBTS (continued)

- (iv) Petromed Solutions S.R.L. for an amount up to RON 15.00 million. The balance as at December 31, 2016 amounts to RON 7.86 million (December 31, 2015: RON 6.88 million).
- (v) OMV Petrom Aviation S.A. for an amount up to RON 25.00 million (2015: RON 15 million). The balance as at December 31, 2016 amounts to RON 21.97 million (December 31, 2015: RON 14.23 million).
- (vi) Energy Production Enhancement S.R.L. for an amount up to RON 15.00 million. As at December 31, 2016, OMV Petrom had no outstanding balance in relation to the cash pooling contract concluded with Energy Production Enhancement S.R.L.
- (vii) As at December 31, 2015 OMV Petrom had a receivable balance in relation to the cash pooling contract with OMV Petrom Wind Power S.R.L. in amount of RON 16.40 million which was presented under assets held for sale (see note 11). The cash pooling contract with OMV Petrom Wind Power S.R.L. expired on April 23, 2016 and it was not renewed.

The Company has several credit facilities signed as at December 31, 2016 as follows:

- (d) An unsecured credit facility granted by Raiffeisen Bank S.A. up to EUR 55.00 million (2015: EUR 105.00 million) consisting in two subfacilities: subfacility A with maturity date prolonged to December 31, 2017 (for an amount of EUR 35.00 million) and subfacility B with maturity date prolonged to December 15, 2019 (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); 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, 2016 and 2015.
- (e) An unsecured Banks Consortium revolving facility amounting to EUR 1,000.00 million was contracted on May 20, 2015 with 5 years maturity and with the possibility of extension for another 2 years. First extension by one year was done in March 2016, the current maturity being May 20, 2021. The Banks Consortium includes 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 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 România S.A.; KDB Bank Europe Ltd. There are no drawings from this facility as at December 31, 2016 and 2015.
- (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 70.00 million (equivalent of RON 317.88 million), for issuance of letters of bank guarantee and as overdraft for working capital financing. The maturity for letters of bank guarantee was prolonged until November 20, 2020 and for overdraft until November 22, 2017. No drawings under the overdraft were made as at December 31, 2016 and 2015.
- (g) An uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. with maximum limit of EUR 60.00 million (equivalent of RON 272.47 million) (2015: EUR 120.00 million, equivalent of RON 542.94 million) that can be used in RON, with maturity date prolonged until April 30, 2017. The facility is designated to finance OMV Petrom's current activity and for issuance of letters of guarantee and letters of credit. No drawings under the facility were made as at December 31, 2016 and 2015.

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14. INTEREST-BEARING DEBTS (continued)

(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 908.22 million), for issuance of letters of bank guarantee and similar and as overdraft for working capital financing. The maturity for letters of bank guarantee and similar is January 14, 2018 and for overdraft the maturity was prolonged from January 14, 2017 to January 11, 2019. No drawings for overdraft purposes were made as at December 31, 2016 and 2015.

OMV Petrom S.A. has signed also facilities with several banks for issuing letters of guarantee, as follows:

- (i) An unsecured facility agreement was signed by OMV Petrom S.A. with BNP Paribas Fortis S.A/N.V.– Bucharest branch – for up to EUR 30.00 million (equivalent of RON 136.23 million), to be utilized only for issuance of letters of bank guarantee and letters of credit, with maturity date prolonged to March 27, 2017.
- (j) An unsecured credit facility up to EUR 30.00 million (equivalent of RON 136.23 million) obtained by OMV Petrom S.A. from BRD – Groupe Société Générale S.A., to be utilized only for issuance of letters of credit, endorsement of promissory notes and issuance of letters of bank guarantee. The validity period for the credit facility was prolonged to April 30, 2017.
- (k) An unsecured credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 113.53 million), to be utilized only for issuance of letters of bank guarantee, with maturity extended until March 31, 2020.

As at December 31, 2016, OMV Petrom S.A. is in compliance with all financial covenants stipulated by the loan agreements.

Please refer to Note 32 for details regarding interest rates risk of interest-bearing debts.

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15. OTHER FINANCIAL LIABILITIES

	<u>December 31, 2016</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Finance lease liabilities	194.06	45.38	148.68
Financial liabilities in connection with joint operations	3.27	3.27	-
Derivative financial liabilities	9.41	9.41	-
Other financial liabilities	<u>128.65</u>	<u>119.06</u>	<u>9.59</u>
Total	<u>335.39</u>	<u>177.12</u>	<u>158.27</u>
	<u>December 31, 2015</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Finance lease liabilities	281.64	44.80	236.84
Financial liabilities in connection with joint operations	227.34	227.34	-
Derivative financial liabilities	101.97	101.97	-
Other financial liabilities	<u>151.53</u>	<u>143.19</u>	<u>8.34</u>
Total	<u>762.48</u>	<u>517.30</u>	<u>245.18</u>

Finance lease liabilities

As of December 31, 2016, the Company had finance leases mainly in relation with equipment for production of electricity (Upstream segment), and a hydrogen and medium pressure steam production plant for Petrobrazil Refinery (Downstream Oil segment).

The finance lease contract regarding the pipe yards facilities for tubing reconditioning in Upstream, concluded in the year 2013 for a 15 year period, was terminated earlier, during 2016, and, as a consequence, OMV Petrom made a down payment to the lessor amounting to RON 60.26 million (equivalent of EUR 13.54 million).

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 146.97 million (2015: RON 158.68 million).

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Obligations under finance leases		
Amounts due within 1 year	52.71	63.74
Amounts due after more than 1 year but not later than 5 years	91.93	148.19
Amounts due after 5 years	<u>90.40</u>	<u>156.75</u>
Total lease obligations	<u>235.04</u>	<u>368.68</u>
Less future finance charges on finance leases	(40.98)	(87.04)
Present value of finance lease liabilities	<u>194.06</u>	<u>281.64</u>
<i>Analyzed as follows:</i>		
Maturing within 1 year	45.38	44.80
Maturing after more than 1 year but not later than 5 years	73.54	110.61
Maturing after 5 years	<u>75.14</u>	<u>126.23</u>

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15. OTHER FINANCIAL LIABILITIES (continued)

Maturity profile of financial liabilities

The tables below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows (i.e. also including future finance charges):

December 31, 2016	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	749.10	655.45	102.98	1,507.53
Trade payables	1,689.84	-	-	1,689.84
Other financial liabilities	184.46	101.20	90.71	376.37
Total	2,623.40	756.65	193.69	3,573.74

December 31, 2015	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	572.39	774.90	191.42	1,538.71
Trade payables	1,817.57	-	-	1,817.57
Other financial liabilities	536.24	156.53	156.75	849.52
Total	2,926.20	931.43	348.17	4,205.80

16. OTHER LIABILITIES

	December 31, 2016	less than 1 year	over 1 year
Tax liabilities	365.75	365.75	-
Social security	43.01	43.01	-
Deferred income	34.42	34.42	-
Other liabilities	38.18	38.18	-
Total	481.36	481.36	-

	December 31, 2015	less than 1 year	over 1 year
Tax liabilities	423.90	423.90	-
Social security	44.80	44.80	-
Deferred income	11.65	11.65	-
Other liabilities	31.94	31.94	-
Total	512.29	512.29	-

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17. DEFERRED TAX

December 31, 2016	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	216.10	-	216.10	-
Financial assets	99.71	-	99.71	-
Inventories	19.72	-	19.72	-
Receivables and other assets	63.06	(41.62)	21.44	-
Untaxed reserves	-	-	-	1.25
Provisions for pensions and severance payments	39.57	-	39.57	4.81
Other provisions	1,081.95	-	1,081.95	-
Liabilities	5.73	-	5.73	-
Total	1,525.84	(41.62)	1,484.22	6.06
Netting (same tax jurisdiction/country)			(6.06)	(6.06)
Deferred tax, net			1,478.16	-
December 31, 2015	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	235.96	-	235.96	-
Financial assets	94.50	-	94.50	2.27
Inventories	31.35	-	31.35	-
Receivables and other assets	63.49	(41.83)	21.66	-
Untaxed reserves	-	-	-	5.56
Provisions for pensions and severance payments	39.36	-	39.36	2.26
Other provisions	1,076.21	-	1,076.21	-
Liabilities	4.03	-	4.03	-
Total	1,544.90	(41.83)	1,503.07	10.09
Netting (same tax jurisdiction/country)			(10.09)	(10.09)
Deferred tax, net			1,492.98	-

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18. OTHER OPERATING INCOME

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Exchange gains from operating activities	74.42	83.52
Gains on disposal of non-current assets	23.64	22.00
Write-up tangible and intangible assets	5.34	13.25
Other operating income	<u>303.60</u>	<u>292.99</u>
Total	<u>407.00</u>	<u>411.76</u>

19. OTHER OPERATING EXPENSES

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Exchange losses from operating activities	64.22	152.05
Losses on disposal of non-current assets	12.41	16.04
Net income from provisions for litigations	(78.17)	(61.63)
Other operating expenses	<u>573.60</u>	<u>367.46</u>
Total	<u>572.06</u>	<u>473.92</u>

Other operating expenses include an amount of RON 90.84 million (2015: RON 72.14 million) representing restructuring expenses.

The increase in "Other operating expenses" line refers mainly to the valuation allowance for other financial assets considering the uncertainty regarding the expenditure recoverable from Romanian State (Note 8c).

20. COST INFORMATION

For the years ended December 31, 2016 and December 31, 2015 the income statement includes the following personnel expenses:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Wages and salaries	1,661.00	1,892.88
Other personnel expenses	<u>133.37</u>	<u>105.47</u>
Total personnel expenses	<u>1,794.37</u>	<u>1,998.35</u>

Included in the above wages and salaries is the amount of RON 223.53 million, representing Company's contribution to state pension plan for the year ended December 31, 2016 (2015: RON 251.74 million).

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20. COST INFORMATION (continued)

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Depreciation and amortization	2,805.88	2,833.05
Net impairment intangible assets and property, plant and equipment	<u>442.60</u>	<u>3,295.28</u>
Total depreciation, amortization and net impairment	<u>3,248.48</u>	<u>6,128.33</u>

Net impairment losses booked during the year ended December 31, 2016 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 440.46 million (including mainly impairments for replaced assets, unsuccessful workovers and exploration assets) and in other segments amounting to RON 2.14 million.

Net impairment losses booked during the year ended December 31, 2015 for intangible assets and property, plant and equipment were related to Upstream segment amounting to RON 3,279.66 million (including mainly impairments for Upstream production assets, impairments for replaced assets, unsuccessful workovers and exploration wells), to Downstream Oil amounting to RON 11.87 million, to Downstream Gas amounting to RON 3.49 million and in Corporate & Other segment amounting to RON 0.26 million.

In the income statement the impairment losses are included under cost of sales in amount of RON 279.56 million (2015: RON 2,899.25 million), under exploration expenses in amount of RON 165.85 million (2015: RON 408.40 million) and under administrative expenses in amount of RON 2.53 million (2015: RON 0.26 million). These impairment losses are netted off with write-ups amounting to RON 5.34 million (2015: RON 13.25 million). During 2015, the amount of RON 0.26 million representing impairment losses was presented under selling expenses.

Rental expenses included in the income statement for the year ended December 31, 2016 are in amount of RON 146.56 million (2015: RON 134.50 million).

21. INCOME FROM INVESTMENTS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Dividends from subsidiaries	388.25	583.86
Dividends from associated companies	<u>3.95</u>	<u>1.63</u>
Total	<u>392.20</u>	<u>585.49</u>

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22. INTEREST INCOME AND INTEREST EXPENSES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest income		
Interest income related to subsidiaries and associates	40.21	40.63
Interest income from receivables and other	123.34	182.27
Interest income from short term bank deposits	3.23	2.65
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivables	<u>33.23</u>	<u>43.00</u>
Total interest income	<u>200.01</u>	<u>268.55</u>
Interest expenses		
Interest expenses	(45.75)	(60.16)
Unwinding expenses for retirement benefits provision	(8.55)	(10.27)
Unwinding expenses for decommissioning provision net of the unwinding income for related State receivables	(220.30)	(213.87)
Unwinding and discounting for other items and negative effect of changes in discount rate and timing for State receivables	<u>(50.82)</u>	<u>(116.45)</u>
Total interest expenses	<u>(325.42)</u>	<u>(400.75)</u>
Net interest expenses	<u>(125.41)</u>	<u>(132.20)</u>

23. OTHER FINANCIAL INCOME AND EXPENSES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial income		
Exchange gains from financing activities	56.39	138.06
Gains from investments and financial assets	<u>30.72</u>	<u>1.78</u>
Total financial income	<u>87.11</u>	<u>139.84</u>
Financial expenses		
Exchange losses from financing activities	(27.52)	(47.83)
Losses from investments and financial assets	(15.79)	(175.15)
Other financial expenses	<u>(148.64)</u>	<u>(471.80)</u>
Total financial expenses	<u>(191.95)</u>	<u>(694.78)</u>
Other financial income and expenses	<u>(104.84)</u>	<u>(554.94)</u>

Other financial expenses include an amount of RON 126.19 million representing additional provision for risk and charges in relation to the parent company guarantees issued by OMV Petrom S.A. for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP (Note 13) (2015: RON 445.58 million).

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24. TAXES ON INCOME

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Taxes on income - current year	(129.32)	(398.84)
Deferred tax revenue/ (expense)	<u>(14.54)</u>	<u>465.03</u>
Total taxes on income – revenue/ (expense)	<u>(143.86)</u>	<u>66.19</u>

The reconciliation of deferred taxes is as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax asset at January 1	1,492.98	1,035.69
Deferred tax asset at December 31	<u>1,478.16</u>	<u>1,492.98</u>
Changes in deferred taxes	<u>(14.82)</u>	<u>457.29</u>
thereof deferred taxes (expenses)/revenues in Other Comprehensive Income	(0.28)	(7.74)
thereof deferred taxes (expenses)/ revenues in the Income Statement	<u>(14.54)</u>	<u>465.03</u>

Reconciliation

Profit/ (loss) before taxation	1,051.71	(696.83)
Income tax rate applicable	16.00%	16.00%
Profit tax revenue/ (expense) based on income tax rate	(168.27)	111.49
Tax credit	14.90	17.53
Change in valuation allowance	0.21	(0.48)
Tax effect of items that are non-deductible/ non-taxable	<u>9.30</u>	<u>(62.35)</u>
Profits tax revenues/ (expenses) in the Income Statement	<u>(143.86)</u>	<u>66.19</u>

Items that were non-deductible/ non-taxable in 2015 comprised mainly the increase in the provision for risk and charges in relation to the parent company guarantee issued by OMV Petrom S.A. for loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP.

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25. SEGMENT INFORMATION

OMV Petrom S.A. 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'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 taken to manage these risks.

Apart from the integration of OMV Petrom'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 company-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 company-wide basis. Regular surveys are undertaken across OMV Petrom 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 are engaged in Romania and main outcome products are crude oil and natural gas.

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, extends the gas value chain into a gas-fired power plant.

Downstream Oil operates Petrobrazi refinery and produces and delivers gasoline, diesel and other petroleum products to its wholesale customers.

The key figure of operating performance for OMV Petrom S.A. is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

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25. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2016	Upstream	Downstream[*]	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Total
Intersegment sales	6,866.11	222.29	259.83	45.04	(82.58)	143.43	7,231.83	(7,231.83)	-
Sales with third parties	83.86	12,468.39	3,873.41	8,594.98	-	41.61	12,593.86	-	12,593.86
Total sales	6,949.97	12,690.68	4,133.24	8,640.02	(82.58)	185.04	19,825.69	(7,231.83)	12,593.86
EBIT	420.11	684.49	(80.41)	764.90	-	(73.29)	1,031.31	(141.55)	889.76
Total assets **	23,214.95	5,017.66	1,471.74	3,545.92	-	480.77	28,713.38	-	28,713.38
Additions in PPE/IA ***	2,507.52	136.44	(186.25)	322.69	-	3.13	2,647.09	-	2,647.09
Depreciation and amortization	2,202.45	580.34	118.54	461.80	-	23.10	2,805.89	-	2,805.89
Impairment losses (net)	440.46	(0.39)	(0.74)	0.35	-	2.53	442.60	-	442.60

Information about geographical areas:

December 31, 2016	Romania	Rest of CEE	Rest of world	Total
Sales with third parties****	12,286.84	292.62	14.40	12,593.86
Total assets**	28,713.38	-	-	28,713.38
Additions in PPE/IA	2,647.09	-	-	2,647.09

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA) and property, plant and equipment (PPE)

***) Additions in Downstream Gas were reduced by the amount of RON 199.31 million in relation to the government grant receivable from the Romanian Ministry of Energy (Note 9).

****) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

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25. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2015	Upstream	Downstream*	Downstream Gas	Downstream Oil	Downstream elimination	Corporate & Other	Total	Consolidation	Total
Intersegment sales	8,295.21	260.86	301.94	53.77	(94.85)	169.10	8,725.17	(8,725.17)	-
Sales with third parties	224.79	13,691.80	4,002.27	9,689.53	-	35.90	13,952.49	-	13,952.49
Total sales	8,520.00	13,952.66	4,304.21	9,743.30	(94.85)	205.00	22,677.66	(8,725.17)	13,952.49
EBIT	(1,510.48)	674.12	(130.09)	804.21	-	(76.11)	(912.47)	317.29	(595.18)
Total assets **	23,517.68	5,473.76	1,776.54	3,697.22	-	506.67	29,498.11	-	29,498.11
Additions in PPE/IA	4,157.92	294.31	9.32	284.99	-	7.90	4,460.13	-	4,460.13
Depreciation and amortization	2,258.30	551.06	120.88	430.18	-	23.69	2,833.05	-	2,833.05
Impairment losses (net)	3,279.66	15.36	3.49	11.87	-	0.26	3,295.28	-	3,295.28

Information about geographical areas:

December 31, 2015	Romania	Rest of CEE	Rest of world	Total
Sales with third parties***	13,500.82	428.16	23.51	13,952.49
Total assets**	29,498.11	-	-	29,498.11
Additions in PPE/IA	4,460.13	-	-	4,460.13

*) Sales Downstream = Sales Downstream Oil + Sales Downstream Gas – intersegmental elimination Downstream Oil and Downstream Gas

**) Intangible assets (IA) and property, plant and equipment (PPE)

***) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

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26. AVERAGE NUMBER OF EMPLOYEES

The number of employees calculated as the average of the month's end number of employees during the year is 14,380 for 2016 and 15,581 for 2015.

27. 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.

The balances with related parties comprise also loans receivable and payable, included in the Statement of financial position under "Other financial assets" (see also Note 8) and "Interest-bearing debts" respectively (refer to Note 14c).

Dividends receivable are not included in the below balances and revenues.

Please refer to Note 30 for details on the guarantees given or paid to related parties.

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27. RELATED PARTIES (continued)

During 2016, the Company had the following transactions with related parties (including balances as of December 31, 2016):

	Nature of transaction	Purchases	Balances Payable
OMV PETROM S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	40.81	41.22
OMV Petrom Gas S.R.L.	Acquisition of gas and other	111.34	18.95
OMV Petrom Wind Power SRL	Acquisition of electricity and green certificates	20.74	3.29
Petromed Solutions S.R.L.	Medical services	21.45	0.47
OMV Petrom Aviation S.A.	Airport sales services	19.18	1.39
OMV Bulgaria OOD	Delegation of personnel and other	0.54	0.35
Kom Munai LLP	Various services	0.14	-
OMV Srbija d.o.o.	Various services	0.19	0.14
Petrom Moldova S.R.L.	Various services	0.08	0.01
Total OMV Petrom S.A. subsidiaries		214.47	65.82
Other related parties			
OMV Petrom Global Solutions SRL	Financial, IT and other services	371.25	75.31
OMV Supply & Trading Limited	Acquisition of petroleum products	399.26	28.29
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	90.89	28.10
OMV Exploration & Production GmbH	Delegation of personnel and other	52.01	13.16
OMV Aktiengesellschaft	Delegation of personnel and other	33.92	20.71
OMV Trading GmbH	Services and other	7.39	2.87
OMV International Oil & Gas GmbH	Delegation of personnel and other	1.45	0.82
OMV Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.05	0.88
OMV Gas & Power GmbH	Delegation of personnel and other	0.17	0.63
OMV Austria Exploration & Production GmbH	Various services	0.70	-
Total other companies		958.09	170.77
Total		1,172.56	236.59

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27. RELATED PARTIES (continued)

	<u>Nature of transaction</u>	<u>Revenues</u>	<u>Receivables</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	6,558.95	697.38
OMV Petrom Gas S.R.L.	Sales of gas	2,780.41	306.99
OMV Bulgaria OOD	Sales of petroleum products	361.90	45.82
Petrom Moldova S.R.L.	Sales of petroleum products	135.14	0.31
OMV Srbija DOO	Sales of petroleum products	82.29	13.05
Tasbulat Oil Corporation	Delegation of personnel and other	7.90	9.94
Kom Munai LLP	Delegation of personnel and other	6.63	0.96
Petromed Solutions S.R.L.	Financial, IT and other services	2.01	0.16
OMV Petrom Aviation S.A.	IT and other services	0.33	0.05
OMV Petrom Wind Power SRL	Delegation of personnel and other	0.60	0.23
Energy Production Enhancement SRL	Other services	0.02	-
Total OMV Petrom S.A. subsidiaries		<u>9,936.18</u>	<u>1,074.89</u>
Other related parties			
OMV Supply & Trading Limited	Sales of petroleum products	648.79	66.49
OMV Deutschland GmbH	Sales of propylene	178.05	30.16
OMV Exploration & Production GmbH	Delegation of personnel and other	17.57	3.10
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	61.56	20.49
OMV Aktiengesellschaft	Delegation of personnel and other	11.89	2.76
OMV Trading GmbH	Services and other	63.14	-
OMV Gas & Power GmbH	Delegation of personnel and other	1.10	-
OMV Petrom Global Solutions SRL	Various services	23.76	3.62
Trans Gas LPG Services S.R.L.	Various services	0.11	0.03
Borealis AG	Various services	0.02	-
OMV Supply & Trading AG	Sales of petroleum products	-	0.67
Petrom Nadlac S.R.L.	Various services	-	0.01
Total other companies		<u>1,005.99</u>	<u>127.33</u>
Total		<u>10,942.17</u>	<u>1,202.22</u>

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27. RELATED PARTIES (continued)

During 2015, the Company had the following transactions with related parties (including balances as of December 31, 2015):

	<u>Nature of transaction</u>	<u>Purchases</u>	<u>Balances payable</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Gas S.R.L.	Acquisition of gas and other	83.96	19.35
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	50.84	34.95
OMV Petrom Aviation S.A.	Airport sales services	24.50	1.44
Petromed Solutions S.R.L.	Medical services	23.28	1.94
OMV Petrom Wind Power S.R.L.	Acquisition of electricity and green certificates	21.80	2.25
OMV Bulgaria OOD	Delegation of personnel and other	0.78	0.48
Petrom Moldova S.R.L	Various services	0.42	0.04
Kom Munai LLP	Various services	0.24	-
OMV Srbija DOO	Acquisition of petroleum products	0.15	0.15
Total OMV Petrom S.A. subsidiaries		<u>205.97</u>	<u>60.60</u>
Other related parties			
OMV Petrom Global Solutions S.R.L.	Financial, IT and other services	416.99	25.26
OMV Supply & Trading Limited	Acquisition of petroleum products	235.06	0.84
OMV Refining & Marketing GmbH	Acquisition of petroleum products, other materials and services	147.66	35.06
OMV International Oil & Gas GmbH	Delegation of personnel and other	76.16	5.80
OMV Exploration & Production GmbH	Delegation of personnel and other	66.37	15.33
OMV Trading GmbH	Services and other	51.85	7.99
OMV Aktiengesellschaft	Delegation of personnel and other	21.99	7.86
OMV Gas & Power GmbH	Delegation of personnel and other	2.17	5.16
OMV Supply & Trading AG	Various services	0.82	-
OMV Austria Exploration & Production GmbH	Various services	0.78	0.25
OMV Deutschland GmbH	Various services	0.35	-
OMV Samsun Elektrik Üretim Sanayi ve Ticaret A.Ş.	Delegation of personnel and other	0.26	-
OMV Solutions GmbH	Delegation of personnel and other	0.09	0.09
OMV International Services GmbH	Various services	0.01	-
Total other related parties		<u>1,020.56</u>	<u>103.64</u>
Total		<u>1,226.53</u>	<u>164.24</u>

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27. RELATED PARTIES (continued)

	<u>Nature of transaction</u>	<u>Revenues</u>	<u>Balances receivable</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	6,982.83	605.48
OMV Petrom Gas S.R.L.	Sales of gas	3,174.67	341.39
OMV Bulgaria OOD	Sales of petroleum products	355.25	28.55
Petrom Moldova S.R.L.	Sales of petroleum products	190.73	0.08
OMV Srbija DOO	Sales of petroleum products	67.64	8.22
Tasbulat Oil Corporation	Delegation of personnel and other	12.90	15.37
Kom Munai LLP	Delegation of personnel and other	10.57	2.02
Petromed Solutions S.R.L.	Financial, IT and other services	2.15	0.20
OMV Petrom Wind Power S.R.L.	Delegation of personnel and other	0.74	0.14
OMV Petrom Aviation S.A.	IT and other services	0.23	0.05
Petrom Exploration & Production Limited	Advance payment for delegation of personnel	0.01	0.01
Total OMV Petrom S.A. subsidiaries		<u>10,797.72</u>	<u>1,001.51</u>
Other related parties			
OMV Supply & Trading Limited	Sales of petroleum products	957.41	12.37
OMV Deutschland GmbH	Sales of propylene	228.89	22.15
OMV Trading GmbH	Services and other	67.79	2.92
OMV Supply & Trading AG	Sales of petroleum products	59.98	0.65
OMV Refining & Marketing GmbH	Sales of petroleum products, delegation of personnel and other	34.20	1.64
OMV Petrom Global Solutions S.R.L.	Various services	27.99	2.81
OMV Exploration & Production GmbH	Delegation of personnel and other	27.81	4.51
OMV Aktiengesellschaft	Delegation of personnel and other	23.85	2.85
OMV Solutions GmbH	Delegation of personnel	3.71	-
OMV Gas & Power GmbH	Delegation of personnel and other	0.40	0.04
Petrol Ofisi A.Ş.	Sales of petroleum products	0.35	0.02
Trans Gas LPG Services S.R.L.	Various services	0.11	0.04
Borealis AG	Various services	0.01	-
Petrom Nadlac S.R.L.	Various services	0.01	0.01
Total other related parties		<u>1,432.51</u>	<u>50.01</u>
Total		<u>12,230.23</u>	<u>1,051.52</u>

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27. RELATED PARTIES (continued)

During 2016, there were in place intercompany loans granted by the Company to the following subsidiaries and associates:

- a) OMV Bulgaria OOD: one intercompany loan with maximum limit of EUR 82.50 million, maturity December 30, 2018;
- b) OMV Srbija DOO: one intercompany loan with maximum limit of EUR 72.50 million, maturity December 30, 2018;
- c) Petrom Moldova S.R.L.: one intercompany loan with maximum limit of EUR 16.50 million, maturity August 7, 2019; the contractual amount was decreased in March, 2016 to a maximum limit of EUR 9.67 million;
- d) OMV Petrom Wind Power S.R.L.: one intercompany loan with maximum limit of EUR 36.30 million, maturity April 22, 2020.
- e) OMV Petrom Marketing S.R.L.: one intercompany loan with maximum limit of USD 238.00 million, maturity May 31, 2018;
- f) OMV Petrom Gas S.R.L.: one intercompany loan with maximum limit of USD 80.00 million, maturity May 14, 2019;
- g) OMV Petrom Global Solutions S.R.L.: one intercompany loan with maximum limit of RON 27.00 million, maturity June 15, 2019;
- h) Petrom Nadlac S.R.L.: one intercompany loan with maximum limit of RON 2.70 million, maturity April 30, 2019.
- i) Energy Production Enhancement S.R.L.: one intercompany loan with maximum limit of RON 0.10 million, maturity June 30, 2016. The loan was fully repaid on due date.

The balances receivable in respect to these loans, as at December 31, 2016 and December 31, 2015 are presented below:

	Balance at December 31, 2016	Allowance at December 31, 2016	Net balance at December 31, 2016	Net balance at December 31, 2015
OMV Petrom Marketing S.R.L.	793.78	-	793.78	570.08
OMV Petrom Gas S.R.L. *	298.21	-	298.21	349.62
OMV Bulgaria OOD	134.08	-	134.08	169.82
Petrom Moldova S.R.L.	31.81	-	31.81	63.87
OMV Srbija DOO	14.99	-	14.99	36.22
Petrom Nadlac S.R.L.	-	-	-	1.40
Total	1,272.87	-	1,272.87	1,191.01

*) The balance of OMV Petrom Gas S.R.L. is in relation with both intercompany loan and cash pooling agreement. For details about the cash pooling agreements please refer to Note 14c).

As at December 31, 2016 and 2015 the loan receivable from OMV Petrom Wind Power S.R.L., in amount of RON 84.93 million (respectively RON 75.23 million in 2015) is presented under assets held for sale (see note 11).

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27. RELATED PARTIES (continued)

Interest income and interest expenses as well as balances receivable and balances payable related to interest income and interest expenses in respect to related parties are presented below:

	Interest income 2016	Balances receivable at December 31, 2016	Interest income 2015	Balances receivable at December 31, 2015
OMV Petrom S.A. subsidiaries				
OMV Petrom Marketing S.R.L.	23.67	1.34	20.82	0.81
Kom Munai LLP	2.52	-	2.38	-
OMV Bulgaria OOD	3.12	0.11	4.19	0.15
OMV Petrom Gas S.R.L.	6.27	-	7.03	0.30
OMV Petrom Wind Power S.R.L.	3.04	0.13	3.21	0.13
OMV Srbija DOO	0.70	0.01	1.45	0.03
Petrom Moldova S.R.L.	0.85	0.02	1.52	0.06
Energy Production Enhancement S.R.L.	0.00	0.00	-	-
Petrom Nadlac S.R.L.	0.04	-	0.03	0.00
Total OMV Petrom S.A. subsidiaries	40.21	1.61	40.63	1.48
Other related parties	-	-	-	-
Total	40.21	1.61	40.63	1.48
	Interest expenses 2016	Balances payable at December 31, 2016	Interest expenses 2015	Balances payable at December 31, 2015
OMV Petrom S.A. subsidiaries				
OMV Petrom Marketing S.R.L.	1.74	0.22	1.67	0.06
OMV Petrom Gas S.R.L.	0.25	-	1.67	-
OMV Petrom Aviation S.A.	0.11	0.01	0.14	0.01
Petromed Solutions S.R.L.	0.05	0.00	0.08	0.01
OMV Petrom Wind Power S.R.L.	-	-	-	-
Total OMV Petrom S.A. subsidiaries	2.15	0.23	3.56	0.08
Other related parties				
OMV Petrom Global Solutions S.R.L.	0.77	0.06	1.10	0.08
Total other related parties	0.77	0.06	1.10	0.08
Total	2.92	0.29	4.66	0.16

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27. RELATED PARTIES (continued)

Ultimate parent

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft being the ultimate parent of the Group, with its office based at Trabrennstraße 6-8, 1020 Vienna, Austria. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 24.9%).

The consolidated financial statements of OMV Aktiengesellschaft are prepared in accordance with IFRS adopted by 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 2016 and 2015, the General Meeting of Shareholders approved a net remuneration for each member of the Supervisory Board amounting to EUR 20,000 per year and an additional net remuneration for each committee member of EUR 4,000 per meeting of the respective committee of the Supervisory Board.

At December 31, 2016 and 2015 there are no loans or advances granted by the Company to the members of the Supervisory Board.

As at December 31, 2016 and 2015, the Company 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 2016 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 52.71 million (2015: RON 54.26 million).

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28. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of other borrowings

During 2016 OMV Petrom S.A. has repaid borrowings amounting to RON 213.56 million (2015: RON 179.12 million) and finance lease obligations amounting to RON 100.20 million (2015: RON 27.69 million) and has not drawn any borrowings (2015: RON 54.20 million).

b) Investments in subsidiaries

During 2016 a new subsidiary, Energy Production Enhancement S.R.L., was set-up, in which OMV Petrom S.A. holds 99.99% interest, generating cash outflow amounting to RON 0.67 million.

During 2015 OMV Petrom paid in cash an amount of RON 91.76 million for the increase in share capital of Tasbulat Oil Corporation BVI, which further increased share capital of Tasbulat Oil Corporation LLP, and an amount of RON 0.13 million for the increase in share capital of Petrom Exploration & Production Limited. During 2016 the investment in Petrom Exploration & Production Limited further increased with RON 0.25 million.

c) Disposal of financial assets

During 2016 OMV Petrom received an amount of RON 0.15 million (equivalent of EUR 0.03 million) in relation to the liquidation of its subsidiaries OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH.

During 2015 OMV Petrom received an amount of RON 197.80 million (equivalent of EUR 44.56 million) from its subsidiary OMV Petrom Ukraine E&P GmbH, representing reduction of capital contributed in this subsidiary (RON 197.52 million, equivalent of EUR 44.50 million) and part of accumulated profits (RON 0.28 million, equivalent of EUR 0.06 million).

During 2015, the investment in Benz Oil S.A. was sold, generating a cash inflow of RON 0.01 million.

e) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by OMV Petrom S.A. for the year ended December 31, 2016 is of RON 501.18 million (2015: RON 1,609.01 million), out of which the amount of RON 99.28 million is related to operating activities (2015: RON 174.99 million) and the amount of RON 401.90 million represents cash outflows for exploration investing activities (2015: RON 1,434.02 million).

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29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Estimates of fair value at year end date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at year end date for similar liabilities with like maturities (level 2 hierarchy).

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value. In accordance with IFRS 13, the individual levels are defined as follows:

Level 1: Using quoted prices in active markets for identical assets or liabilities.

Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

Fair value hierarchy for derivative instruments as at December 31, 2016

Financial instruments on asset side	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	0.00	-	0.00
Total	-	0.00	-	0.00
Financial instruments on liability side	Level 1	Level 2	Level 3	Total
Liabilities on derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	(9.41)	-	(9.41)
Total	-	(9.41)	-	(9.41)

Fair value hierarchy for derivative instruments as at December 31, 2015

Financial instruments on asset side	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	105.16	-	105.16
Total	-	105.16	-	105.16

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29. 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	-	-	-	-
Other derivatives	-	(101.97)	-	(101.97)
Total	-	(101.97)	-	(101.97)

The financial liabilities and financial assets whose fair values differ from their carrying amounts as at December 31, 2016 and December 31, 2015 (Level 2 – observable inputs), as well as the respective differences are presented in the tables below. The fair values of these financial assets and liabilities were determined by discounting future cash flows using interest rates prevailing at the reporting date for similar assets and liabilities with similar maturities.

December 31, 2016

Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	905.44	912.12	(6.68)
Finance lease liabilities	195.59	194.06	1.53
Total	1,101.03	1,106.18	(5.15)

Other financial assets	Fair value	Carrying amount	Difference
Loans to subsidiaries	1,272.38	1,272.87	(0.49)
Total	1,272.38	1,272.87	(0.49)

December 31, 2015

Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,095.11	1,091.25	3.86
Finance lease liabilities	283.47	281.64	1.83
Total	1,378.58	1,372.89	5.69

Other financial assets	Fair value	Carrying amount	Difference
Loans to subsidiaries	1,215.06	1,191.01	24.05
Total	1,215.06	1,191.01	24.05

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29. 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.

As at December 31, 2016 there were no significant offsetting financial assets and liabilities.

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, 2015 in accordance with IAS 32 and shows in the net column the amounts presented in the statement of financial position.

Offsetting of financial assets 2015

	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
Derivative financial instruments	199.80	(97.83)	101.97 ⁽¹⁾	-	101.97
Other financial assets	64.31	(42.88)	21.44 ⁽¹⁾	-	21.44
Total	264.11	(140.70)	123.41	-	123.41

⁽¹⁾ included in Other financial assets of RON 3,641.17 million in the statement of financial position

Offsetting of financial liabilities 2015

	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
Derivative financial instruments	199.80	(97.83)	101.97 ⁽²⁾	-	101.97
Other financial liabilities	64.31	(42.88)	21.44 ⁽²⁾	-	21.44
Total	264.11	(140.70)	123.41	-	123.41

⁽²⁾ included in Other financial liabilities of RON 245.18 million in the statement of financial position

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30. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2016 the total commitments engaged by the Company for investments (except those in relation to joint arrangements) are in amount of RON 590.80 million (2015: RON 919.26 million), out of which RON 482.17 million related to property, plant and equipment (2015: RON 798.38 million) and RON 108.63 million for intangible assets (2015: RON 120.88 million).

The Company has additional commitments in relation to joint arrangements. For details please refer to Note 31.

Litigations

The Company 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 the Company's financial position. The production facilities and properties of the Company are subject to a variety of environmental protection laws and regulations; provisions are made for probable obligations arising from environmental protection measures.

Contingent liabilities

OMV Petrom S.A. has contingent liabilities representing performance guarantees in amount of RON 26.30 million as at December 31, 2016 (December 31, 2015: RON 29.20 million) and several parent company guarantees (PCG's) with total exposure of RON 660.95 million (December 31, 2015: RON 718.67 million), as follows:

- a PCG issued on behalf of OMV Srbija DOO to cover the risk of non-payment of liabilities for fuels to supplier Nafta Industrija Srbije j.s.c, to the limit of RON 113.53 million at December 31, 2016 (December 31, 2015: RON 113.11 million), equivalent of EUR 25.00 million;
- two PCGs which warrant OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. the repayments of utilized amounts under the loans granted by OMV Petrom Marketing S.R.L. and OMV Petrom Gas S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP. As at December 31, 2016 and 2015, the exposure related to the guarantee given is fully reflected under provision for risk and charges (see Note 13);
- a PCG which warrants European Bank for Reconstruction and Development the repayments of utilized amounts and related obligations under the loan granted by European Bank for Reconstruction and Development to Kom Munai LLP. The utilized amount as of December 31, 2016 amounts to RON 547.42 million (equivalent of USD 127.21 million; 2015: RON 588.97 million, equivalent of USD 142.00 million);
- as at December 31, 2015, OMV Petrom had also issued a PCG on behalf of Petrom Moldova S.R.L. to cover the risk of non-payment of liabilities for fuels to supplier Proton Energy Group, to the limit of RON 16.59 million (equivalent of USD 4.00 million).

Company 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, a reliable estimation of the amount required to settle a potential remediation obligation cannot be made, as the performance of specialized studies to determine the degree of contamination, if any, is prevented by the physical existence of the installations; consequently, no provision has been booked by the company in this respect.

OMV PETROM S.A.
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30. COMMITMENTS AND CONTINGENCIES (continued)

OMV Petrom S.A. is subject to a partial tax audit having as scope the oil and gas royalties for the period 2011-2015. Due to various interpretations of the legal provisions with regard to calculation of gas royalties, the tax audit has been suspended until clarification of such legal basis. The Company considers it fully observed all relevant legal provisions enforced by competent regulatory authorities and therefore assesses that it is not probable that an outflow of resources embodying economic benefits will be required. Considering all the above, the Company did not reflect any provision in the financial statements in relation to this matter.

31. 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 Black Sea and has a participating interest of 50%. Starting August 2011, ExxonMobil has been appointed as operator (previously OMV Petrom S.A. was operator).

OMV Petrom S.A. entered into a farm out arrangement with Hunt Oil Company of Romania S.R.L. ("Hunt") with the purpose to explore and develop Adjud and Urziceni East onshore blocks and has a participating interest of 50%. Starting October 2013, Hunt has been appointed as operator (previously OMV Petrom S.A. was operator).

In 2013 OMV Petrom S.A. entered into four farm out arrangements with Repsol with the purpose to explore and develop four onshore blocks (Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII) for the area deeper than 2,500-3,000 m and has a participating interest of 51%. OMV Petrom S.A. has been appointed operator.

In 2012 OMV Petrom S.A. signed a transfer agreement with ExxonMobil, Sterling Resources Ltd. and Petro Ventures Europe B.V. for the purchase of hydrocarbon exploration and production rights to the deep water portion of the XV Midia Block ("Midia Deep"). Following completion of the transfer agreement in 2014, the participating interests in Midia Deep are: 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 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, 2016 is amounting RON 57.82 million (2015: RON 333.29 million), mainly in relation to off-shore drilling requirements.

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32. RISK MANAGEMENT

Capital risk management

OMV Petrom S.A. continuously manages its capital adequacy to ensure that it is optimally capitalized, in accordance with its risks exposure in order to maximize the return to stakeholders. The capital structure of OMV Petrom S.A. consists of shareholders' equity (comprising share capital, retained earnings and other reserves as disclosed in the "Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 14). Capital risk management at OMV Petrom S.A. is part of the value management and it is based on permanent review of the gearing ratio of the Company.

Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents. Due to the significant cash balance at December 31, 2016, OMV Petrom S.A. switched to a net cash position of RON 200.47 million, compared to the December 31, 2015 net debt position of RON 1,070.24 million. The gearing ratio (calculated as net debt/ equity *100) was 4% as at December 31, 2015.

The Company's management reviews the capital structure as well as 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 3 to the financial statements.

Financial risk management objectives and policies

The objective of OMV Petrom Risk Management function is to secure positive economic value added for medium term time horizon by managing the Company's cash flow exposure within the risk appetite. Low probability high potential impact risks are monitored individually.

The Risk Management function reports twice per year to OMV Petrom Executive Board and Supervisory Board's Audit Committee, an overview of OMV Petrom Group's risk profile for midterm horizon, as well as the risk management activities and initiatives undergone for mitigating the Company's risk exposures.

Risk exposures and responses

OMV Petrom S.A.'s Risk Management function performs a central coordination of an Enterprise Wide Risk Management (EWRM) process in which it actively pursues the identification, analysis, evaluation and treatment of significant risks (market and financial, operational and strategic) in order to minimize their effects on cash flows up to an acceptable level agreed as the risk appetite.

Risk Management function monitors and manages all significant risks of the Company through an integrated process in line with ISO 31000 EWRM standard, by internal risk reports and regular assessments which analyze all significant risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market and financial risk category plays an important role in the Company's risk profile and is managed with special diligence – market and financial risk includes, among others, foreign exchange risk, interest rate risk, counterparty credit risk, commodity market price risk and liquidity risk.

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32. RISK MANAGEMENT (continued)

Response wise, any risk which increases near to its significance level or which is sensitive to the risk appetite level and it rapidly develops is monitored and alert is issued. For these situations individual and case specific treatment plans are proposed, approved and implemented accordingly in order to decrease the exposures down to acceptable levels.

Commodity Market Price Risk

The Company is naturally exposed to the market risks arising out of 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 Company's risk profile and its midterm liquidity. The market price risks of the Company's commodities are very closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within the Company's midterm objectives.

Financial 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 operates in many currencies, industry specific activities and the corresponding exchange risks are analyzed. OMV Petrom 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 EBIT.

Foreign currency sensitivity analysis

The carrying amounts at the reporting date of foreign currency denominated monetary assets and liabilities of OMV Petrom, which induce sensitivity to EUR/USD exchange rate in the financial statement, are as follows:

	December 31, 2016	December 31, 2015
Assets		
Thousand USD	210,967	223,857
Thousand EUR	121,552	101,646
Liabilities		
Thousand USD	464,830	521,626
Thousand EUR	330,168	344,412

The following table details the Company's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes only 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 generated by a 10% currency fluctuation and a negative number below indicates a decrease in total comprehensive income with the same value.

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32. RISK MANAGEMENT (continued)

+10% increase in the foreign currencies rates

	<u>Thousand USD Impact (i)</u>		<u>Thousand EUR Impact (ii)</u>	
	2016	2015	2016	2015
Profit/ (Loss)	(25,386)	(29,777)	(20,862)	(24,277)
Other comprehensive income	-	-	-	-

-10% decrease in the foreign currencies rates

	<u>Thousand USD Impact (i)</u>		<u>Thousand EUR Impact (ii)</u>	
	2016	2015	2016	2015
Profit/ (Loss)	25,386	29,777	20,862	24,277
Other comprehensive income	-	-	-	-

(i) This is mainly attributable to the exposure on USD loans, and to parent company guarantee issued in USD.

(ii) This is mainly attributable to the exposure on EUR loans and leases.

The above sensitivity analysis of the inherent foreign exchange risk shows the translation exposure at the end of the year; however the cash flow exposure during the year is continuously monitored and managed by the Company.

Interest rate risk management

To facilitate management of interest rate risk, the Company's liabilities are analyzed in terms of fixed and variable rate borrowings, currencies and maturities.

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates (with all other variables held constant).

Analysis for change in interest rate risk:

Variable rate borrowings:	Balance as at		Effect of 1% change in interest rate	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Short term borrowings	729.58	545.49	7.30	5.45
Long term borrowings	730.08	909.51	7.30	9.10

In 2016, there was no need for hedging the interest rate risk, hence no financial instruments were used for such scope.

OMV PETROM S.A.
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32. RISK MANAGEMENT (continued)

Counterparty Credit Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The main counterparty credit risks are assessed, monitored and managed 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 is secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by strict guidelines.

The Company does not have any significant credit risk concentration exposure to any single counterparty or any group of counterparties having similar characteristics, besides the members of its Group.

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows 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 the Company remains solvent all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Company's financial liabilities is presented in Note 15.

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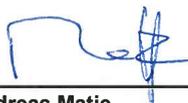
33. SUBSEQUENT EVENTS

There are no significant events subsequent to the reporting date.

These financial statements, presented from page 10 to page 80, comprising statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, were approved on March 23, 2017.



Mariana Gheorghe
Chief Executive Officer



Andreas Matje
Chief Financial Officer



Peter Zeilinger
Executive Board Member Upstream



Lăcrămioara Diaconu-Pințea
Executive Board Member
Downstream Gas



Neil Morgan
Executive Board Member
Downstream Oil



Irina-Nadia Dobre
Director Finance Department



Nicoleta-Mihaela Drumea
Head of Financial Reporting

**STANDALONE REPORT
ON PAYMENTS TO GOVERNMENTS
FOR THE YEAR 2016**

INFORMATION ABOUT THIS REPORT

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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.

OMV Petrom S.A. (hereinafter "**OMV Petrom**", "**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 report (hereinafter the "**Report**") on payments to governments. The Report covers the extractive activities in Romania (Upstream business segment) of OMV Petrom S.A..

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 has a larger contribution at national level than the reportable payments under the Regulation. OMV Petrom makes 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 contributes to the national economy 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 report covering payments made to Governments for its extractive activities (Upstream business segment).

Activities within the scope of the Report

Payments made by OMV Petrom to governments in connection with any of the following activities: exploration, prospecting, 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:

- a) on government and governmental body basis;
- b) by type of payment;
- c) 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 2016, 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, 2016.

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.

<i>(in thousands of RON)</i>	Taxes (on profits, production or income)	Royalties	Fees (license, rental, entry and other)	Total of Payments
Romania	438,278	579,626	56,908	1,074,812

Payments by project, government and type of payment

<i>(in thousands of RON)</i>	Taxes (on profits, production or income)	Royalties	Fees (license, rental, entry and other)	Total of Payments
Romania				
Payments per project				
Onshore production zones	-	441,589	56,802	498,391
Offshore Black Sea	-	138,037	106	138,143
Payments not attributable to projects	438,278	-	-	438,278
Total	438,278	579,626	56,908	1,074,812
Payments per Government				
State Budget	438,278	579,626	-	1,017,904
National Company of Forests	-	-	39,050	39,050
Local City Councils	-	-	14,203	14,203
National Agency for Mineral Resources	-	-	3,211	3,211
Conpet SA	-	-	444	444
Total	438,278	579,626	56,908	1,074,812



Mariana Gheorghe
Chief Executive Officer



Andreas Matje
Chief Financial Officer



Peter Zeilinger
Executive Board Member
Upstream



Lăcrămioara Diaconu-Piñtea
Executive Board Member
Downstream Gas



Neil Morgan
Executive Board Member
Downstream Oil

