Directors' Report

Business Environment

At 3.1%, **global economic growth** was down slightly year on year in 2016. Lower energy and raw material prices coupled with restrictions on trade pushed the growth in world trade down to only 1.9%. The pace of growth in emerging and developing economies remained unchanged at 4.1%, while economic output in industrialized countries dropped by 0.5 percentage points to 1.6%. For the first time since 2008, eurozone growth, at 1.7%, outpaced that of the United States, which stood at 1.6%. While inflation remained low at 0.3%, the European Central Bank continued its expansive monetary policy and lowered base rates to 0%.

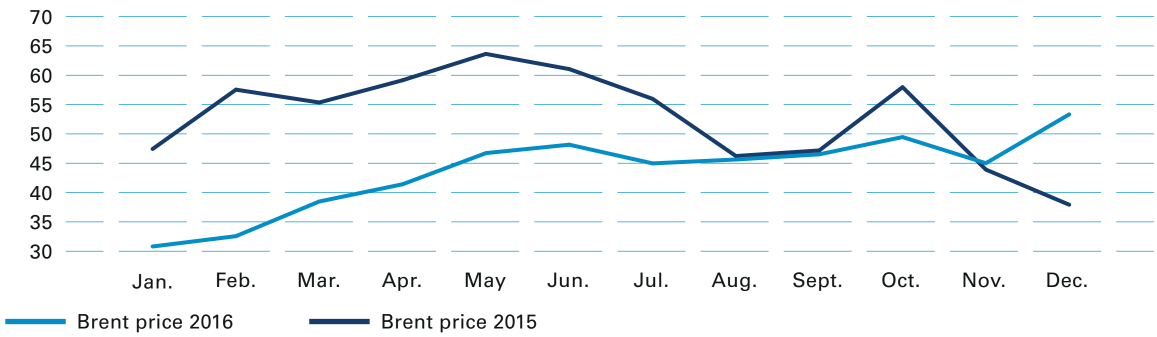
The growth of the Gross Domestic Product (GDP) in the EU-28 countries was 1.8%, while unemployment fell to 10%. Contrary to expectations, the result of the Brexit referendum had not had any negative economic effects as of the end of 2016. In **Germany**, GDP went up by 1.9% on the back of stable domestic demand and investment, although the increase in foreign trade was not as strong. Economic output in **Austria** grew by 1.5%. As in Germany, consumption and investment – both of which accelerated as a result of the latest tax reform – made the most significant contribution to growth. Merchandise exports grew slowly, but there was an upturn in demand for exports of services (especially tourism). **Romania** was the fastest-growing economy in the EU in 2016, posting an increase in GDP of 4.8%. The rise in private and public consumption was above average, but the balance of payments deficit weighed on higher growth. **Turkey's** economy continued its robust expansion in the first half of 2016, spurred by private consumption and public investment. However, security issues and the resulting decline in tourism had a significant impact on the economy in the second half of the year. GDP growth fell to 2.7%, down from 6.1% in 2015.

Global oil demand hit a new record of 96.5 mn bbl/d (up 1.6%) in 2016, with non-OECD (Organization for Economic Co-operation and Development) countries, mostly countries with low per capita income, accounting for 80% of the increase (up 1.2 mn bbl/d or 2.5%). There was only a modest rise in OECD demand (of 0.3 mn bbl/d or 0.4%), which was attributable exclusively to European OECD countries. Global oil production was 0.3 mn bbl/d higher than in 2015, at 96.9 mn bbl/d, exceeding demand by 0.4 mn bbl/d. Production of crude oil and output of Natural Gas Liquids (NGL) of OPEC (Organization of the Petroleum Exporting Countries) member countries went up by 3.2% or 1.1 mn bbl/d, to 39.3 mn bbl/d. This increase was mainly attributable to Iran, Iraq and Saudi Arabia.

Non-OPEC countries produced 0.9 mn bbl/d less than in 2015. About half of this decrease was accounted for by the United States, where output dropped by 3.6%.

Crude price (Brent) – monthly average

In USD/bbl



Due to oversupply, the Brent oil price reached a low for 2016 of USD 26/bbl in January but recovered during the remainder of the year. In late November 2016, OPEC members agreed to cut production by 1.2 mn bbl in the first half of 2017. Russia and other producers supported this effort to stabilize the market by announcing further decreases in production. Prices subsequently jumped by around 20%, passing the USD 50/bbl mark. The average price of Brent crude was 17% lower year on year in 2016 at USD 43.73/bbl.

The **exchange rate** of the euro to the dollar remained virtually unchanged at USD 1.11. The euro prices of petroleum products on the Rotterdam market declined by 17–20%.

Austrian natural gas demand increased by 4.7% in 2016 to 8.3 bcm or 92.8 TWh, and electricity generation at gas-fired power stations rose by 19%. Domestic natural gas production was 6% lower, at 12.6 TWh, while net imports increased by 25% to more than 80 TWh. At year-end, there was a total of 55 TWh of gas in storage, for a full percentage rate of 57%.

Petroleum product sales volumes in the markets served by OMV (Central and Southeastern Europe and Turkey) climbed to more than 180 mn t in 2016. Sales in **Austria** totaled around 11.1 mn t, a gain of 3%, of which 80% was attributable to stronger demand for diesel. In **Germany,** total sales went up by 2%, driven mainly by diesel (up 5%) and aviation fuel (up 6%). Increased sales in **Romania** (up 4%) and **Turkey** (up 5%) can also be traced back to a lively demand for transportation fuel.

Financial Review of the Year

Group financials

Group financials
In EUR mn

	2016	2015	Δ
Sales revenue	19,260	22,527	(15)%
Earnings Before Interest and Taxes (EBIT)	(457)	(2,006)	77%
Net income for the year	(183)	(1,255)	85%
Net income attributable to stockholders of the parent	(403)	(1,100)	63%
Cash flow from operating activities	2,878	2,834	2%
Capital expenditure [1]	1,878	2,769	(32)%
Employees as of December 31	22,544	24,124	(7)%

[1] Includes acquisitions as well as equity-accounted investments and other interests; adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves, borrowing costs and other additions that by definition are not considered capital expenditure

In 2016, the market environment was substantially worse than in 2015, with Brent oil prices down by 17%, Central European Gas Hub (CEGH) prices down by 28%, and the OMV indicator refining margin down by 34%. In addition, a total of EUR (1.8) bn of impairments booked in 2016 affected the Earnings Before Interest and Taxes (EBIT) of EUR (457) mn, partly compensated by a strong Downstream result, higher Upstream sales volumes, lower depreciation and the Group-wide cost savings.

The significant improvement against last year's negative result of EUR (2,006) mn was mainly related to the substantial impairments booked in 2015 across the entire Upstream portfolio as a result of the drop in oil and gas prices. In 2016, the **main impairments** were related to the divestments of a 30% stake in Rosebank field and of OMV (U. K.) Limited, both of which are in Upstream. In Downstream, Samsun power plant and Etzel gas storage were impaired as well as OMV Petrol Ofisi following the reclassification to "held for sale."

The **net financial result** of EUR 227 mn was significantly above 2015 (EUR 97 mn), spurred by a higher result contribution coming from associated companies, the optimization of OMV Group's financing structure and a positive foreign exchange result. The Group's current income tax expenses amounted to EUR (130) mn and deferred tax income to EUR 178 mn. The effective tax rate was at 21% (2015: 34%). Net income attributable to stockholders of the parent was EUR (403) mn, above the 2015 figure of EUR (1,100) mn. Non-controlling and hybrid interests stood at EUR 221 mn (2015: EUR (155) mn). The improved performance is also reflected in the Return On Average Capital Employed (ROACE), which increased from (6)% in 2015 to 0% in 2016. For definitions of this ratio, please refer to the glossary of abbreviations and definitions, which is an integral part of the Directors' Report.

The year 2016 continued to be a challenging year for the **Upstream** Business Segment. This Business Segment is active as operator or as joint venture partner in 15 countries, in the majority of which OMV has both exploration and production assets. OMV Upstream's geographical footprint in 2016 covers Romania and Black Sea, Austria, North Sea, Australasia, Middle East and Africa. The hydrocarbon mix is relatively equally split between oil and gas. Proved oil and gas reserves (1P) slightly increased to 1,030 mn boe (2015: 1,028 mn boe). More than two-thirds of the Upstream production volume of 311 kboe/d (2015: 303 kboe/d) is produced in the mature core countries Austria and Romania. These are complemented by the balanced international portfolio in which the North Sea region has developed into a core area with a production of approximately 70 kboe/d in 2016.
The key projects in OMV's Upstream exploration and development portfolio are Neptun Deep in Romania; Edvard Grieg, Aasta Hansteen, Gullfaks and Wisting in Norway; Nawara in Tunisia; and Shuwaihat and East Abu Dhabi in the United Arab Emirates, while field redevelopment Lebada Est in Romania was completed and put in production in 2016.

In the **Downstream** Business Segment, **Downstream Oil** operates along the entire oil value chain: It processes equity and third-party crude in its three refineries and markets refined products to commercial customers and through its retail network of 3,777 filling stations, with total refined product sales of 30.74 mn t. The refineries in Schwechat (Austria) and Burghausen (Germany) operate petrochemical complexes, having the petrochemical company Borealis as a key customer. OMV holds a 36% stake in Borealis.

Downstream Gas markets OMV's European equity gas production as well as third-party gas to end-use customers and on Europe's main gas hubs. It operates a ~900 km high-pressure natural gas pipeline network in Austria together with 30 TWh of storage capacity and holds a 65% stake in the Central European Gas Hub, an important gas trading hub in Central and Eastern Europe. Furthermore, OMV operates two gas-fired power plants in Romania and Turkey, generating a net electrical output of 5.18 TWh in 2016.

Earnings Before Interest and Taxes (EBIT)

Earnings Before Interest and Taxes (EBIT)
In EUR mn

	2016	2015	Δ
Upstream	(1,059)	(2,371)	55%
Downstream	695	334	108%
thereof Downstream Oil	744	890	(16)%
thereof Downstream Gas	(49)	(555)	91%
Corporate and Other	(56)	(48)	(16)%
Consolidation: elimination of inter-segmental profits	(36)	79	n.m.
OMV Group	**(457)**	**(2,006)**	**77%**

Upstream EBIT was negative at EUR (1,059) mn, being negatively impacted by the impairments booked in 2016 and the low oil price environment. Positive developments in 2016 came from lower depreciation resulting from a lower asset base following the significant impairments in 2015 and from reduced production costs. The main impairments in 2016 were related to the divestments of a 30% stake in Rosebank of EUR (543) mn and of OMV (U.K.) Limited of EUR (493) mn, significantly below the 2015 amount of EUR (2,449) mn. Production costs excluding royalties (OPEX) decreased by 12% to USD 11.59/boe as a result of the successful implementation of the cost reduction program that resulted in lower services and personnel costs, coupled with higher production. Daily production of oil, NGL and gas increased in 2016 by 3% to 311 kboe/d mainly due to higher volumes in Norway, partly offset by the natural decline of oil and gas production in Romania. Total sales volumes increased by 4%, while the average realized prices for crude as well as for gas decreased by 19%. While hedging positively supported the result with EUR 74 mn in 2015, realized prices in 2016 were impacted by a negative hedging result of EUR (6) mn.

Downstream recorded a strong EBIT of EUR 695 mn, which was significantly above the EUR 334 mn in 2015 mainly due to lower impairments and provisions. **Downstream Oil** EBIT of EUR 744 mn represents a decrease of 16% compared to EUR 890 mn in 2015 driven by a EUR (334) mn impairment booked for OMV Petrol Ofisi disposal group following reclassification to "held for sale," partly offset by higher sales volumes and lower crude prices. The OMV indicator refining margin decreased from USD 7.2/bbl to USD 4.7/bbl, mainly due to lower naphtha and middle distillates spreads. This trend was partly compensated for by lower crude prices. In 2016, the refining utilization rate stood at 89% versus 93% in 2015. The reduction was the result of the planned turnarounds of approximately one month in Schwechat and Petrobrazi. Lower propylene margins led to a petrochemical EBIT decrease of 9% to EUR 238 mn. Meanwhile, the retail business showed very strong performance. At EUR (148) mn, OMV Petrol Ofisi made a significantly lower contribution to earnings than in the previous year (EUR (11) mn in 2015).

Downstream Gas EBIT of EUR (49) mn improved significantly against the 2015 EBIT of EUR (555) mn. This was mainly spurred by lower impairments and provisions booked in 2016 compared to the prior year, together with restructuring efforts and the stable contribution from the gas logistics business. Main impairments in 2016 were related to the Samsun power plant with EUR (101) mn and the Etzel gas storage facility with EUR (73) mn. Natural gas sales volumes remained flat at 109 TWh in 2016. The contribution of the gas transportation business in Austria was also stable at EUR 126 mn while the power business remained challenging, with net electrical output decreasing to 5.2 TWh compared to 5.4 TWh in 2015.

EBIT in the Corporate and Other segment decreased by 16% to EUR (56) mn in 2016.

Notes to the Income Statement

Summarized income statement

In EUR mn

	2016	2015	Δ
Sales revenues	19,260	22,527	(15)%
Direct selling expenses	(355)	(327)	(8)%
Cost of sales	(16,559)	(22,174)	25%
Other operating income	644	392	64%
Selling and administrative expenses	(1,347)	(1,277)	(5)%
Exploration expenses	(808)	(707)	(14)%
Research and development expenses	(28)	(28)	3%
Other operating expenses	(1,264)	(413)	(206)%
Earnings Before Interest and Taxes (EBIT)	**(457)**	**(2,006)**	**(77)%**
Net financial result	227	97	135%
Taxes on income	47	654	(93)%
Net income for the year	**(183)**	**(1,255)**	**85%**
thereof attributable to hybrid capital owners	103	42	143%
thereof attributable to non-controlling interests	118	(197)	n.m.
Net income attributable to stockholders of the parent	**(403)**	**(1,100)**	**63%**

OMV is an integrated, international oil and gas company. As the crude oil produced by Upstream is passed on to Downstream Oil and either processed at Group refineries or – in a large part – marketed via OMV Supply & Trading Limited, the Downstream Oil business represents the largest share of the Group's consolidated sales. The volatility in the main factors affecting profitability – crude oil and gas prices and USD exchange rates – may cause considerable swings in sales revenues and cost of sales. Therefore, their impact on earnings is difficult to predict.

Although sales volumes increased compared to 2015, due to the lower price environment **consolidated sales revenues** decreased by 15% to EUR 19,260 mn. Sales of the **Upstream** Business Segment decreased by 16% to EUR 3,285 mn. After the elimination of intra-Group transactions of EUR 2,272 mn, the contribution of Upstream to consolidated sales revenues was EUR 1,013 mn or about 5% of the Group's total sales revenues (2015: EUR 1,017 mn or 5%). Consolidated sales in **Downstream Oil** amounted to EUR 14,603 mn or 76% of total sales (2015: EUR 17,290 mn or 77%). **Downstream Gas** sales decreased to EUR 3,779 mn (2015: EUR 4,382 mn). After elimination of intra-segmental sales to refineries, the contribution of Downstream Gas in 2016 was 19% of total sales or EUR 3,640 mn (2015: EUR 4,215 mn or 19%).

Sales to external customers are split up by geographical areas on the basis of where the delivery of goods or services is effective. Austria retained its position as the Group's most important **geographical market** with sales of EUR 4,884 mn or 25% of the Group's total (2015: EUR 5,787 mn or 26%). Sales revenues in Germany decreased from EUR 3,595 mn in 2015 to EUR 2,777 mn in 2016, representing a revenue contribution of 14% (2015: 16%). In Romania, the sales revenues amounted to EUR 3,006 mn or 16% of total sales revenues (2015: EUR 3,307 mn or 15%). Sales revenues in Turkey decreased to EUR 4,817 mn or 25% of OMV Group's total sales in 2016 (2015: EUR 5,638 mn or 25%). Sales in the rest of Central and Eastern Europe (CEE) were EUR 2,477 mn or 13% of Group sales revenues (2015: EUR 2,669 mn or 12%). The rest of Europe accounted for EUR 931 mn or 5% (2015: EUR 914 mn or 4%). Sales revenues in the rest of the world decreased to EUR 369 mn, representing 2% of total sales revenues (2015: EUR 616 mn or 3%).

Direct selling expenses, mainly consisting of third-party freight-out expenses, slightly increased to EUR (355) mn (2015: EUR (327) mn) on account of higher volumes sold in Upstream. **Cost of sales,** which includes variable and fixed production costs as well as costs of goods and materials employed, decreased by 25% to EUR (16,559) mn, reflecting the lower price environment and fewer impairments compared to 2015. **Other operating income** increased to EUR 644 mn (2015: EUR 392 mn) in 2016, mainly due to the write-up of an asset in the Middle East and Africa region following reclassification to "held for sale" and to a gain from the divestment of the Aliağa terminal in Turkey. **Selling and administrative expenses** amounted to EUR (1,347) mn (2015: EUR (1,277) mn). **Exploration expenses** amounting to EUR (808) mn increased by 14% mainly due to the impairment of Rosebank, which was partly compensated by reduced exploration activities in 2016. **Research and development (R&D) expenses** remained stable at EUR (28) mn (2015: EUR (28) mn). **Other operating expenses** of EUR (1,264) mn were significantly above 2015, mainly as a result of impairments following reclassification to "held for sale" of OMV Petrol Ofisi and OMV (U. K.) Limited disposal groups.

The **net financial result** improved to EUR 227 mn (2015: EUR 97 mn), spurred mainly by higher income from equity-accounted investments and an improved net interest result. **Income from equity-accounted investments** in total amounted to EUR 425 mn (2015: EUR 345 mn) and reflected mainly the 36% share of the result from the Borealis group amounting to EUR 399 mn (2015: EUR 356 mn). **Dividend income** amounted to EUR 41 mn (2015: EUR 37 mn). The **net interest result** showed an expense balance of EUR (195) mn (2015: EUR (215) mn). The positive effect compared to 2015 was mainly related to lower interest expenses due to the improved financing structure.

Taxes on income were EUR 47 mn (2015: EUR 654 mn). Current income tax expenses amounted to EUR (130) mn (2015: EUR (133) mn), and deferred tax income amounted to EUR 178 mn (2015: EUR 787 mn). The Group's effective tax rate decreased to 21% (2015: 34%). For further details on taxes on income, please refer to Note 11 of the Consolidated Financial Statements.

Capital Expenditure (CAPEX)

Capital expenditure [1]

In EUR mn

	2016	2015	Δ
Upstream	1,356	2,140	(37)%
Downstream	513	608	(16)%
thereof Downstream Oil	463	546	(15)%
thereof Downstream Gas	49	62	(20)%
Corporate and Other	10	21	(54)%
Total capital expenditure	**1,878**	**2,769**	**(32)%**
+/– Other adjustments	173	433	(60)%
– Investments in financial assets	(5)	(12)	59%
Additions according to statement of non-current assets (intangible and tangible assets)	**2,047**	**3,190**	**(36)%**
+/– Non-cash changes	(25)	(211)	88%
Cash outflow due to investments in intangible and tangible assets	**2,022**	**2,978**	**(32)%**
+ Cash outflow due to investments in other companies, securities, loans and other financial assets	66	88	(25)%
+ Acquisitions of subsidiaries net of cash acquired	54	—	n.m.
Investments as shown in the cash flow statement	**2,141**	**3,066**	**(30)%**

[1] Includes acquisitions as well as equity-accounted investments and other interests; adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves, borrowing costs and other additions that by definition are not considered capital expenditure

CAPEX decreased to EUR 1,878 mn (2015: EUR 2,769 mn) as a result of the strict cost reduction program and portfolio reshaping. **Upstream** invested EUR 1,356 mn (2015: EUR 2,140 mn) mainly in field developments in Norway and in field redevelopments, drilling and work-over activities in Romania. **Downstream** CAPEX amounted to EUR 513 mn (2015: EUR 608 mn), thereof EUR 463 mn in Downstream Oil (2015: EUR 546 mn) and EUR 49 mn in Downstream Gas (2015: EUR 62 mn). The main investments made were related to maintenance and compliance activities in the refineries and to the implementation of the new discount concept in retail. CAPEX in the **Corporate and Other** segment was EUR 10 mn (2015: EUR 21 mn).

The reconciliation of total capital expenditure to additions according to the statement of non-current assets (intangible and tangible) mainly relates to additions, which by definition are not considered to be capital expenditure, as well as investments in financial assets. The difference between the additions shown in the statement of non-current assets and the investments reported in the cash flow statement partly arise from additions to intangible and tangible assets that did not affect investing cash flows during the period (including accrued liabilities arising from investments, new finance leases, decommissioning and capitalized borrowing costs). In addition, cash outflows due to investments in financial assets are included in the overall investments shown in the cash flow statement.

Statement of Financial Position

Summarized statement of financial position

In EUR mn

	2016	%	2015	%
Assets				
Non-current assets	21,042	66	24,054	74
Intangible assets and property, plant and equipment	16,326	51	19,715	60
Equity-accounted investments	2,860	9	2,562	8
Other non-current assets	1,017	3	927	3
Deferred tax assets	839	3	850	3
Current assets	7,666	24	8,516	26
Inventories	1,663	5	1,873	6
Trade receivables	2,459	8	2,567	8
Other current assets	3,544	11	4,076	12
Assets held for sale	3,405	11	94	0
Equity and liabilities				
Equity	13,925	43	14,298	44
Non-current liabilities	10,354	32	10,314	32
Pensions and similar obligations	1,057	3	1,045	3
Bonds and other interest-bearing debts	4,737	15	4,592	14
Decommissioning and restoration obligations	3,320	10	3,342	10
Other provisions and liabilities	1,117	3	1,105	3
Deferred tax liabilities	122	0	229	1
Current liabilities	6,727	21	8,021	25
Trade payables	3,731	12	3,380	10
Bonds and other interest-bearing debts	260	1	494	2
Provisions and other liabilities	2,736	9	4,147	13
Liabilities associated with assets held for sale	1,107	3	32	0
Total assets/equity and liabilities	**32,112**	**100**	**32,664**	**100**

Total assets decreased by EUR 552 mn to EUR 32,112 mn. The decrease in **non-current assets** amounting to EUR 3,012 mn was mainly related to the ongoing divestment activities and the related reclassification to the balance sheet position "assets held for sale," partly offset by investments made. **Equity-accounted investments** increased by EUR 298 mn. Changes of equity-accounted investments included to a large extent the contribution of Borealis as well as the proportional results from other equity-accounted investments, currency translation of foreign operations and other changes including dividends received amounting to EUR 177 mn. **Other non-current assets,** which primarily comprise non-current receivables, loans and securities, increased by EUR 90 mn to EUR 1,017 mn, with the change being mainly related to the contingent consideration to be received for the divestment of a 30% stake in Rosebank. **Deferred tax assets** decreased to EUR 839 mn (2015: EUR 850 mn). **Current assets** decreased by EUR 850 mn and amounted to EUR 7,666 mn as of December 31, 2016. The main reason was a decrease of EUR 945 mn in the derivatives position. **Inventories** decreased by EUR 210 mn and **trade receivables** by EUR 108 mn primarily due to reclassifications to assets held for sale, partly compensated by increases due to the higher commodity prices. The **overall cash position** increased to EUR 2,314 mn, which includes EUR 245 mn cash related to disposal groups that is being reported within assets held for sale. **Assets held for sale** increased by EUR 3,311 mn mainly due to the reclassification of OMV Petrol Ofisi and OMV (U.K.) Limited disposal groups.

Equity (including non-controlling interest) decreased by 3% in comparison to 2015, while the equity ratio decreased to 43% (2015: 44%). **Pensions and similar obligations** increased by EUR 12 mn. **Non-current decommissioning and restoration obligations** decreased by EUR 22 mn, as the reassessment effects of provisions were more than compensated by the reclassification to liabilities associated with assets held for sale in connection with the ongoing divestment processes.

Current and non-current bonds and other interest-bearing debts decreased by EUR 90 mn, mainly related to the repayment of an international corporate bond and other long-term debt as well as short-term money market lines, partly compensated by new drawings of long-term loans.

Trade payables increased by EUR 352 mn, primarily due to higher oil prices at year-end 2016, compensated by reclassifications to liabilities associated with assets held for sale. **Current and non-current other provisions and other liabilities** decreased by EUR 1,399 mn, of which EUR 877 mn related to a lower balance of derivatives. **Deferred tax liabilities** decreased to EUR 122 mn (2015: EUR 229 mn). **Liabilities associated with assets held for sale** increased by EUR 1,075 mn mainly due to the reclassification of OMV Petrol Ofisi and OMV (U.K.) Limited disposal groups.

Gearing ratio

As of December 31, 2016, **short-and long-term borrowings, bonds and finance leases** amounted to EUR 5,283 mn (December 31, 2015: EUR 5,386 mn), thereof EUR 8 mn are disclosed as liabilities associated with assets held for sale, being part of OMV Petrol Ofisi disposal group. The overall **cash** position increased to EUR 2,314 mn (December 31, 2015: EUR 1,348 mn), thereof EUR 245 mn are disclosed as assets held for sale being part of OMV Petrol Ofisi and OMV (U.K.) Limited disposal groups. **Net debt** decreased to EUR 2,969 mn compared to EUR 4,038 mn at the end of 2015. On December 31, 2016, the **gearing ratio,** defined as net debt divided by equity, stood at 21% (December 31, 2015: 28%).

Cash flow

The Group's cash flow statement is prepared using the indirect method, whereby adjustments are made for changes in the group of consolidated companies, foreign exchange differences and other non-cash transactions.

The inflow of funds from net income, adjusted for non-cash items such as depreciation, net change in long-term provisions, non-cash income from investments and other positions, was EUR 3,026 mn (2015: EUR 3,234 mn), below last year as a result of a lower price environment and compensated by positive effects from the cost reduction program. During 2016, dividends received from equity-accounted investments and other companies amounted to EUR 217 mn (2015: EUR 84 mn). **Cash flow from operating activities** increased slightly by EUR 44 mn or 2% from EUR 2,834 mn in 2015 to EUR 2,878 mn in 2016. There was a net cash outflow from net working capital components of EUR 148 mn (2015: EUR 400 mn), which was mainly attributable to changes in commodity prices as well as to higher trade receivables related to the lifting schedule in the Upstream segment.

Cash outflows for investments in non-current assets and acquisitions of subsidiaries and businesses net of cash acquired of EUR 2,141 mn (2015: EUR 3,066 mn) were partly offset by proceeds from the sale of non-current assets and businesses amounting to EUR 344 mn (2015: EUR 193 mn). In 2016, acquisitions of subsidiaries and businesses net of cash acquired included the acquisition of FE-Trading GmbH and FE-Trading trgovina d.o.o. of EUR 57 mn, reflecting the cash consideration of EUR 26 mn paid to the seller and the redemption of trade and other financial liabilities in the amount of EUR 31 mn. The proceeds from the sale of non-current assets and businesses mainly included cash inflows from the divestment of the Aliağa terminal in Turkey and of the 30% stake in Rosebank. **Net cash outflow from investment activities** totaled EUR 1,797 mn (2015: EUR 2,874 mn). The lower cash outflow in 2016 reflected the measures taken to reduce investments.

Cash outflows from the net decrease of short- and long-term borrowings amounted to EUR (98) mn (2015: EUR (190) mn). In 2016, a EUR 250 mn bond was repaid together with other long-term debt, which was partially compensated by new long-term borrowings, of which EUR 147 mn were related to long-term financing provided by the minority shareholders of GAS CONNECT AUSTRIA GmbH. In 2015, there were repayments of the US private placement bond and other long-term debt and finance leases as well as short-term money market lines, partially offset by new drawings of long-term loans.

In 2016, OMV acquired the remaining non-controlling stake in OMV Gas Marketing & Trading GmbH for EUR 3 and received a EUR 36 mn contribution by former minority shareholders of OMV Gas Marketing & Trading GmbH. Also, there was a significant cash inflow resulting from the sale of a 49% minority stake in GAS CONNECT AUSTRIA GmbH in the amount of EUR 454 mn.

In 2015, the Group acquired the remaining non-controlling stake of 1.2% in OMV Petrol Ofisi A.Ş. Cash outflows for dividend payments amounted to EUR 466 mn (2015: EUR 530 mn), of which EUR 326 mn (2015: EUR 408 mn) were paid to OMV shareholders, EUR 2 mn (2015: EUR 71 mn) to shareholders of non-controlling interests and EUR 137 mn (2015: EUR 51 mn) to hybrid capital owners. During 2015, there was a significant net cash inflow of funds following the issuance of the new hybrid notes in the amount of EUR 1,490 mn. **Net cash outflow from financing activities** amounted to EUR 74 mn (2015: net cash inflow EUR 758 mn).

Free cash flow showed an inflow of funds of EUR 1,081 mn (2015: outflow of EUR 39 mn). **Free cash flow after dividends** resulted in a cash inflow of EUR 615 mn (2015: outflow of EUR 569 mn), mainly due to lower investments. **Free cash flow after dividends including changes from non-controlling interests,** which reflects mainly the cash inflow from the divestment of a 49% minority stake in GAS CONNECT AUSTRIA GmbH, amounted to EUR 1,105 mn in 2016.

Outlook 2017

Market environment

For the year 2017, OMV expects the average Brent oil price to be at USD 55/bbl. The gas market environment in Europe continues to be characterized by oversupply. However, average gas prices on European spot markets are expected to show an increase in 2017.

Group

OMV expects to generate a positive free cash flow after dividends in 2017. Capital expenditure (CAPEX) including capitalized exploration and appraisal activities for 2017 is expected to come in at EUR 2 bn. The cost reduction program implemented in 2016 is being continued in 2017 with a target of reducing costs by EUR 250 mn in 2017 compared to 2015. The proposed dividend is EUR 1.20 per share for the 2016 financial year.

Upstream

OMV expects the total production to be 320 kboe/d in 2017, which includes the contribution from Pearl Petroleum Company of close to 8 kboe/d. Production in Libya has partially restarted and is expected to contribute on average 10 kbbl/d in 2017. CAPEX (including capitalized E&A) is expected to come in at EUR 1.4 bn in 2017. Exploration and appraisal expenditure is expected to amount to EUR 300 mn.

On March 5, 2017, OMV signed an agreement to acquire a 24.99% share in the Yuzhno Russkoye natural gas field located in western Siberia from Uniper SE. The purchase price amounts to USD 1,850 mn. This amount is not included in the EUR 2 bn CAPEX guidance for 2017. The transaction is anticipated to close by the end of 2017 and will be retroactively effective as of January 1, 2017.

Downstream

Refining margins are projected to trend downwards due to crude price recovery and persisting overcapacity in the market. The capacity utilization in 2017 is expected to be above 90%. A planned full site turnaround at the Schwechat refinery is scheduled in April for approximately one month. Petrochemical margins are estimated to slightly decrease in 2017 versus 2016 following the oil price recovery. Commercial and retail margins are projected to be below the levels of 2016.

On March 3, 2017, OMV agreed to sell OMV Petrol Ofisi to VIP Turkey Enerji AS, a subsidiary of Vitol Investment Partnership Ltd., for an overall transaction value of EUR 1,368 mn. The closing is expected in Q3/17 at the latest.

Natural gas sales volumes are expected to be flat in 2017 versus 2016. Due to oversupply on the European gas market, natural gas sales margins are expected to be lower in 2017 compared to 2016. Considering the change in tariff regulation, the contribution from the gas transportation business in Austria (Gas Connect Austria) is expected to be significantly lower in 2017 in comparison to 2016.

Risk Management

In common with the entire oil and gas industry, OMV is exposed to a variety of risks – including market and financial risks, operational risks and strategic risks.

- **Market and financial risks** arise from volatility in the prices of commodities, foreign exchange (FX) rates or interest rates. Also of importance are credit risks, which arise from the inability of a counterparty to meet a payment or delivery commitment. As an oil and gas company, OMV has a significant exposure to oil and gas prices. Substantial FX exposures include the USD, RON, NOK and TRY.
- **Operational risks** include all risks related to physical assets, HSSE, regulatory/compliance risks or project risks.
- **Strategic risks** arise, for example, from changes in technology, risks to reputation or political uncertainties. OMV operates in countries that are subject to political uncertainties, in particular Libya, Yemen, Pakistan, Tunisia and Turkey. Possible political changes may lead to disruptions and limitations in production as well as increased tax burden, restrictions on foreign ownership or even nationalization of property.

It is OMV's view that the Group's overall risk is significantly reduced due to its substantial diversification and the related, partially offsetting effects of different risks. The balancing effects of offsetting industry risks, however, can often lag or weaken. Therefore, OMV's risk management activities focus on the Group-wide net risk exposure of the existing and future portfolio. The interdependencies and correlations between different risks are also reflected in the company's consolidated risk profile. The areas of risk management and insurance are centrally coordinated at the corporate level within the Corporate Finance department, which ensures that well-defined and consistent risk management processes, tools and techniques are applied across the entire organization. Risk ownership is assigned to those managers who are best suited to oversee and manage the related risk.

The overall objective of the risk policy is to safeguard the cash flows required by the Group and to maintain a strong investment-grade credit rating in line with the Group's risk appetite. The success of OMV's strategy execution is secured through a comprehensive strategic risk management process (top-down exercise) that ensures that uncertainties around the company strategy are properly addressed.

Financial risks (e.g. market prices, currencies) are reviewed quarterly by the Financial Risk Committee. A cross-functional committee with senior management members of the OMV Group – the Risk Committee – ensures that an Enterprise Wide Risk Management (EWRM) program is in place to effectively manage the integrated risks across the OMV Group.

EWRM is continuously enhanced. The main purpose is to deliver value through risk-based management decision-making. Assessment of financial, operational and strategic risks supports the exploitation of business opportunities in a systematic manner in order to ensure sustainable growth in OMV's value. Since 2003, the EWRM system has helped to enhance risk awareness and risk management skills across the entire organization, including within subsidiaries in more than 20 countries.

The risk culture is supported by an IT application facilitating the risk management processes established within OMV Group: risk identification, risk analysis, risk evaluation, risk treatment, reporting and risk review through continuous surveillance of changes to the risk profile. Overall risk resulting from the bottom-up risk management process is computed with the aid of Monte Carlo simulations and compared against planning data. This is further combined with a senior management view from a top-down approach to capture the strategic risks. This process also includes those companies that are not fully consolidated. Twice a year, the results from this process are consolidated and presented to the Executive Board and the Audit Committee. In compliance with the Austrian Code of Corporate Governance, the effectiveness of the EWRM system is evaluated by the external auditor on an annual basis. The key non-financial and financial risks identified with respect to OMV's medium-term plan are market price risks, political risks, regulatory and compliance risks, business process risks, foreign exchange risks, project risks, personnel risks and hazard risks.

OMV has extensive experience in the political environment in Central and Eastern Europe (CEE) and Southeastern Europe (SEE). Political developments in all markets where OMV operates are kept under constant observation. Furthermore, country-specific risks are assessed before entering new countries. Risks related to the EU Emission Trading Scheme (EU ETS) are separately recorded and aggregated for the Group as a whole. Furthermore, OMV is monitoring emerging regulations related to climate change in all operating countries. Through systematic staff succession and development planning, Corporate Human Resources plans for suitable managerial staff to meet future growth requirements in order to mitigate personnel risks.

Control and mitigation of assessed risks takes place at all organizational levels using clearly defined risk policies and responsibilities. The key Group risks are governed centrally to ensure the ability to meet the planning objectives, through the essence of corporate directives, including those relating to health, safety, security and environment, legal matters and compliance, human resources and corporate social responsibility, with special emphasis on human rights and market price risks.

Analysis and management of financial risks arising from foreign currencies, interest rates, commodity prices, counterparties, liquidity and insurable risks are undertaken in a consolidated way at the corporate level. Market price risk is monitored and analyzed centrally as to the potential cash flow impact using a specific risk analysis model that considers portfolio effects. Results of the risk analysis are discussed by the Financial Risk Committee, which is comprised of senior management of the Business Segments and corporate functions. Proposals for hedging strategies are submitted to the Executive Board for approval.

To protect the Group's cash flow from the potential negative impact of falling oil and gas prices, OMV uses derivative instruments for hedging purposes. From the hedging strategy introduced in 2015, a EUR 12 mn valuation gain on the January to June 2016 hedging instruments was recycled to profit and loss from other comprehensive income in 2016. Furthermore, a range of new financial swaps for both oil and gas volumes was entered into during 2016, resulting in a total 2016 EBIT impact from these hedges of EUR (6) mn.

In the Downstream business, OMV is especially exposed to volatile refining margins and inventory risks. In order to mitigate those risks corresponding hedging activities are taken. Those include margin hedges as well as stock hedges. In addition, Emission Compliance Management takes care of a balanced position of emission allowances via selling the surplus or covering the gap.

The primary foreign currency risks are related to USD, RON, NOK and TRY currency exposure. The Group has a net USD long position, mainly resulting from sales of oil and gas production. To balance the Group's interest rate portfolio, loans can be converted from fixed to floating rates and vice versa according to predefined rules. The main counterparty credit risks are assessed, monitored and controlled at the Group and segment level using predetermined credit limits for all counterparties, banks and security providers. The procedures are governed by guidelines at the OMV, OMV Petrom and OMV Petrol Ofisi level.

For further details on risk management, please refer to Note 28 of the Consolidated Financial Statements.

Non-financial Performance Measures

Sustainability and HSSE (Health, Safety, Security and Environment)

Sustainability
OMV has a long tradition of responsible behavior towards the environment and society. The OMV sustainability strategy "Resourcefulness" brings together the commitments on health, safety, security, environment, business ethics, human rights, diversity and stakeholder engagement.

Health, Safety and Security
Health, Safety and Security are key values of OMV's business. The physical and mental health, well-being and safety of the people, as well as the integrity of OMV's operating facilities, are of essential importance. Loss prevention and proactive risk management are essential in maintaining OMV's social acceptance and to reach OMV's HSSE vision "ZERO harm – NO losses."

In 2016, the combined Lost-Time Injury Rate (LTIR) for own employees and contractors was 0.40 (2015: 0.27), and the combined Total Recordable Injury Rate (TRIR) was 0.69 (2015: 0.73).

An unstable geopolitical landscape with enduring regional conflicts resulted in the security emphasis for 2016 remaining primarily focused on the Middle East and North Africa. Notwithstanding the challenges of continuing to operate securely in the distressed regions of Libya, Pakistan, Tunisia, Turkey and Yemen, the threat and reality of terrorist attacks on mainland Europe and elsewhere increased significantly. OMV's established crisis management and security travel management procedures provided a reassuring degree of mitigation and control during 2016.

Environmental management
OMV is strongly committed to act on climate change mitigation and responsible resource management and has therefore set targets to manage and reduce the carbon footprint of its operations and products. The key target is to reduce OMV's overall greenhouse gas emission intensity by 10% by 2021 as compared to 2013. Overall, emission savings of more than 50,000 t CO2 were achieved in 2016 at the refineries.

OMV's business principles and approach
OMV strives to uphold equally high compliance standards at all locations. A dedicated cross-regional compliance organization, consisting of 42 compliance experts, ensures that OMV standards are consistently met across the Group. In 2016, more than 2,100 employees were trained to ensure compliance with internal as well as external regulations and laws. OMV is a signatory of the United Nations Global Compact (UNGC) and fully committed to the UN Guiding Principles on Business and Human Rights.

Community relations and development
OMV has been successful in promoting the social benefits of its operations while running an efficient business in the operating countries. In 2016, more than 3,700 external beneficiaries (2015: 3,700) received training and education for exploiting better economic opportunities.

More information about OMV's Sustainability and HSSE performance can be found in the stand-alone OMV Sustainability Report 2016.

Non-financial performance indicators – safety [1]

	2016	2015
Lost-Time Injury Rate (LTIR) per million hours worked for own employees	0.37	0.26
Lost-Time Injury Rate (LTIR) per million hours worked for contractors	0.42	0.28
Lost-Time Injury Rate (LTIR) per million hours worked, total	**0.40**	**0.27**
Total Recordable Injury Rate (TRIR) per million hours worked for own employees	0.64	0.59
Total Recordable Injury Rate (TRIR) per million hours worked for contractors	0.72	0.79
Total Recordable Injury Rate (TRIR) per million hours worked, total	**0.69**	**0.73**

[1] These are preliminary figures and the final figures after the external assurance will be published in the OMV Sustainability Report 2016

Employees

OMV is committed to having an engaged workforce at all operating locations across the globe. The employees are the basis for success in the longer term. Fair and equal treatment of employees is high on the Human Resources Department agenda and is fundamental in the way employees work together. OMV believes that high-performing, diverse teams and an inspiring work environment lead to better business results and help create a great place to work, based on Principles of Team Spirit, Accountability, Passion, Pioneering Spirit and Performance.

OMV is offering stretching career experiences and assignments, opportunities to learn from others and through targeted skills and competency training. There is a continuous focus on the strong talent pipeline that is key for a more competitive and resilient company.

At OMV, there is no difference in entry salaries with regard to gender, nationality or other criteria, and salary equality is encouraged at all career stages.

OMV is committed to the Group's Diversity Strategy. In terms of gender diversity, the target is to have 30% women in Senior Vice President positions by 2020. As of December 31, 2016, women held 23% of Senior Vice President positions (17% in 2015) and international (non-Austrian) employees held 41% (45% in 2015).

At the end of 2016, OMV employed 22,544 employees in 23 different countries.

Research and development

The innovation effort at OMV is focused on implementing ideas that will bring benefits to OMV customers, the environment and the Company itself. In 2016, OMV prepared the first scale-up step for a project, which uses plastic waste to produce synthetic crude in a pyrolysis process. As part of the research project wind2hydrogen, OMV is working with partners on ways to produce "green hydrogen" from renewable electricity, which can be stored for use, whenever it is convenient for consumers. Together with its partners, OMV is running a pilot plant in Auersthal, Austria, to study dynamic hydrogen production. OMV is also a pioneer of hydrogen filling stations in Austria. The first filling station was opened in 2012 and further stations started operation in Innsbruck and Asten. Additional filling stations are planned to open in 2017 in Graz and Wiener Neudorf. In Germany, there are two OMV hydrogen filling stations in operation, and three OMV hydrogen filling stations have been finalized and will be commissioned in 2017 in Bavaria and Baden-Württemberg. OMV is also preparing options for the long-term future. At the Christian Doppler Laboratory in Cambridge, Erwin Reisner and his team are developing a more environmentally sound process for generating Synthesis Gas (SynGas) from carbon dioxide and water, a process which would be both renewable and CO_2-neutral. SynGas can be transformed into liquid fuel such as petrol or diesel and is widely used as a chemical feedstock.

Other Information

Information required by section 243a of the Unternehmensgesetzbuch (Austrian Commercial Code)

1. The capital stock amounts to EUR 327,272,727 and is divided into 327,272,727 bearer shares of no par value. There is only one class of shares.

2. There is a consortium agreement between the two core shareholders, Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) and International Petroleum Investment Company (IPIC), which provides for coordinated behavior and certain limitations to transfers of stockholdings.

3. ÖBIB holds 31.5% and IPIC holds 24.9% of the capital stock.

4. All shares have the same control rights.

5. Employees who are shareholders directly exercise their voting right at the Annual General Meeting.

6. The Company's Executive Board must consist of two to six members. The Company's Supervisory Board must consist of at least six members elected by the Annual General Meeting and of the members nominated under section 110 (1) of the Arbeitsverfassungsgesetz (Austrian Labor Constitution Act). Resolutions concerning the dismissal of members of the Supervisory Board pursuant to section 87 (8) of the Aktiengesetz (Austrian Stock Corporation Act) require a simple majority of the votes cast. To approve capital increases pursuant to section 149 of the Austrian Stock Corporation Act and alterations of the Articles of Association (except those concerning the Company's objects), simple majorities of the votes and capital represented in adopting the resolution are sufficient.

7. a) With regard to the expiration on May 13, 2014 of the authorized capital decided upon by the Annual General Meeting on May 13, 2009, the Annual General Meeting authorized the Executive Board on May 14, 2014, subject to the approval of the Supervisory Board, to increase by May 14, 2019, at once or in several tranches, also by way of indirect offer for subscription after taking over by one or several credit institutions according to section 153, paragraph 6, of the Stock Corporation Act, against cash contributions, the share capital by not more than EUR 32,727,272 by issuing up to 32,727,272 new no-par value common voting shares in bearer form. Subject to the approval of the Supervisory Board, the Executive Board has been authorized to exclude in this connection the subscription right of the shareholders;

(i) to adjust fractional amounts or

(ii) to satisfy stock options or long-term incentive plans including matching share plans for employees, senior employees and members of the Executive Board/management boards of the Company or one of its affiliates, or other employees' stock ownership plans and subject to the approval of the Supervisory Board, to set the issue price and conditions of issuance (authorized capital).

The Supervisory Board has been authorized to adopt amendments to the Articles of Association resulting from the issuance of shares according to the authorized capital.

b) On May 17, 2011, the Annual General Meeting authorized the Executive Board to repurchase treasury shares of up to 10% of the capital stock during a period of 30 months from the day of the resolution in question. Treasury shares could be repurchased via the stock exchange, by way of public tender or in any other legally permitted way and for any legally permitted purpose until November 16, 2013. The Executive Board had also been authorized to rescind treasury shares upon repurchase as well as treasury shares currently owned by the Company without any further resolution by the Annual General Meeting until the same date.

c) The Executive Board had also been authorized until May 16, 2016, upon approval by the Supervisory Board but without any further resolution by the Annual General Meeting, to sell or use treasury shares upon repurchase as well as treasury shares currently owned by the Company via the stock exchange, by way of public tender or in any other way. In particular, treasury shares could be utilized (i) to satisfy stock option and Long Term Incentive Plans for employees, executive staff and members of the Executive Board or the management of the Company or affiliated subsidiaries as well as other employees' bonus schemes, (ii) for convertible bonds, if issued, (iii) as a compensation for the acquisition of enterprises, participations or other assets and (iv) for any other legally permitted purpose. The general shareholders' subscription rights could be excluded and this authorization could be exercised wholly or partly.

d) On May 16, 2016, the Annual General Meeting authorized the Executive Board for a period of five years from the adoption of the resolution, therefore, until (and including) May 17, 2021, upon approval of the Supervisory Board, to dispose of or utilize stock repurchased or already held by the Company to grant treasury shares to employees, senior employees and/or members of the Executive Board/management boards of the Company or one of its affiliates including for purposes of share transfer programs, in particular long-term incentive plans including matching share plans or other stock ownership plans, under exclusion of the general purchasing possibility of shareholders (exclusion of subscription rights). The authorization can be exercised as a whole or in parts or even in several tranches by the Company, by a subsidiary (section 189a, number 7, of the Commercial Code) or by third parties for the account of the Company.

8. a) A hybrid bond with a size of EUR 750 mn was placed on the market on May 25, 2011. As the repayment of principal and the payments of interest are solely at the discretion of OMV, according to IFRS, the proceeds of the hybrid bond (less costs of issuance) were fully treated as equity. The hybrid bears a fixed interest rate of 6.75% until April 26, 2018, thereafter a reset fixed rate (to be determined) until April 26, 2023, and thereafter a floating interest rate with a 100-basis-point step up. The hybrid bond has no scheduled maturity date and may be redeemed at the option of OMV under certain circumstances. OMV has, in particular, the right to repay the hybrid bond at certain dates. In the case of a change of control, OMV may call the hybrid bond for redemption or else the applicable interest rate will be subject to an increase according to the terms and conditions of the hybrid bond.

b) On December 7, 2015, OMV issued hybrid notes with an aggregate size of EUR 1.5 bn, in two tranches of EUR 750 mn each. As the repayment of principal and the payments of interest are solely at the discretion of OMV, according to IFRS, the proceeds of the hybrid notes (less costs of issuance) are fully treated as equity. Tranche 1 bears a fixed interest coupon of 5.250% until, but excluding, December 9, 2021, which is the first call date of tranche 1, and tranche 2 bears a fixed interest coupon of 6.250% until, but excluding, December 9, 2025, which is the first call date of tranche 2. From December 9, 2021, until, but excluding, December 9, 2025, hybrid notes of tranche 1 will bear interest according to a fixed reset interest rate to be determined according to the relevant five-year swap rate and an additional margin of 4.942% and, from December 9, 2025, with an additional step up of 100 basis points. From December 9, 2025, hybrid notes of tranche 2 will bear interest according to a fixed reset interest rate to be determined according to the relevant five-year swap rate and an additional margin of 5.409%, with an additional step up of 100 basis points. The hybrid notes have no scheduled maturity date and may be redeemed at the option of OMV under certain circumstances. OMV has, in particular, the right to repay the hybrid notes at certain dates. In the case of a change of control, OMV may call the hybrid notes for redemption or else the applicable interest rate will be subject to an increase according to the terms and conditions of the hybrid notes.

9. The material financing agreements to which OMV is a party contain typical change of control clauses.

10. There are no agreements between the Company and members of the Executive Board and Supervisory Board or employees regarding the payment of compensation in the event of a public takeover bid.

11. The most important elements of the internal control and risk management system regarding the accounting process are the following: Governance for the internal control system is defined by internal corporate regulations (ICS Directive and its Annexes). Corporate Internal Audit controls the compliance with these principles and requirements through regular audits, based on the annual audit plan approved by the Audit Committee, or through ad hoc audits. The results of those audits are presented to the Audit Committee. The establishment of Group-wide standards for the preparation of annual and interim financial statements by means of the corporate IFRS Accounting Manual is also regulated by an internal corporate regulation. The Group uses a comprehensive risk management system. The essential processes of the financial reporting system have been identified and analyzed. For the main "End-to-End" processes (e.g. Purchase-to-Pay, Order-to-Cash), Group-wide minimum control requirements are defined. Based on a defined time plan, the implementation and the effectiveness are being monitored. In addition, the effectiveness of the risk management system is regularly evaluated by external auditors. The results of the evaluation are reported to the Audit Committee

Subsequent Events

Please refer to Note 38 in the Consolidated Financial Statements.

Vienna, March 22, 2017

The Executive Board

Rainer Seele | Reinhard Florey | Johann Pleininger | Manfred Leitner