

Directors' Report

Business developments in 2016

Sales for the 2016 financial year were EUR 115.98 mn (2015: EUR 108.57 mn). As OMV Aktiengesellschaft is a pure holding company, most of the sales consist of corporate service charges billed to the subsidiaries, which slightly increased compared to the previous year.

Earnings Before Interest and Taxes (EBIT) were EUR 221.14 mn (2015: EUR (53.53) mn). Higher EBIT in 2016 was mainly related to the release of the provision for contingent losses for OMV Gas Marketing & Trading GmbH (formerly EconGas GmbH) in the amount of EUR 272.10 mn.

The **financial result** in 2016 was EUR (132.96) mn (2015: EUR (578.20) mn). The financial items of OMV Aktiengesellschaft as a pure holding company mainly consist of the dividends and other income from investments of the operative companies. Net income from investments was EUR (26.11) mn and thus substantially higher than 2015 (EUR (424.46) mn), mainly because of impairments of participations in 2015. For the investment in OMV Petrol Ofisi A.Ş., an impairment of EUR 289.00 mn (2015: EUR 424.36 mn) was reported based on the fair value which was derived from the agreed sales prices. The dividend of OMV Petrom amounting to EUR 0 mn was below last year (2015: EUR 73.51 mn).

The contribution of the companies in the **Upstream** segment excluding OMV Petrom amounting EUR 0 mn was on the same level as 2015, reflecting the significant drop in oil and gas prices.

The contribution of the companies in the **Downstream** segment excluding OMV Petrom was below previous year, at EUR (38.82) mn (2015: EUR 330.37 mn). Investment income from the Downstream Oil segment excluding OMV Petrom decreased to EUR 276.22 mn (2015: EUR 493.11 mn). The lower result derives from lower refining margins. The investment income contribution from the Downstream Gas segment excluding OMV Petrom for profit pooling EUR (330.32) mn (2015: EUR (184.71) mn) and for dividends EUR 15.28 mn (2015: EUR 21.97 mn) were below previous year. As in 2015, the lower Downstream Gas result in 2016 reflected the weak gas market environment.

Investment

Key investment items in 2016 were capital injections to OMV Finance Solutions USD GmbH, OMV Exploration & Production GmbH and to OMV Gas & Power GmbH.

Cash flows from operating activities for 2016 amounted to EUR 153.16 mn (2015: EUR 177.26 mn), cash flows from investing activities to EUR (2,645.72) mn (2015: EUR (542.70) mn) and cash flows from financing activities to EUR 2,964.83 mn (2015: EUR 1,104.92 mn).

Net income for the year amounted to EUR 239.32 mn (2015: EUR (939.94) mn net loss for the year).

Total assets increased to EUR 17,354.68 mn (2015: EUR 14,248.30 mn).

At balance sheet date, **stockholders' equity** stood at EUR 4,896.99 mn (2015: EUR 4,974.67 mn). The equity ratio as of December 31, 2016, was 28.22% (2015: 34.91%).

The ratio of **fixed assets** to total assets was 80.74% at balance sheet date (2015: 83.08%).

Return On Equity (**ROE**) was 4.85% (2015: (16.62)%).

In 2016, the average **number of employees** at the holding company was 384 (2015: 430).

The comparative figures have been restated in view of the changes introduced by the **Rechnungslegungs-Änderungsgesetz (Financial Reporting Amendment Act) 2014**.

□ For definitions of these ratios, readers are referred to the glossary of abbreviations and definitions, which is an integral part of the Directors' report.

Treasury Shares

As at balance sheet date, a total of 824,369 own shares, or 0.25% of the capital stock, were held.

For details relating to the acquisition of treasury shares please refer to the chapter "Information required by section 243a Unternehmensgesetzbuch (Austrian Commercial Code)".

During the reporting period, 88,455 shares, equivalent to 0.03% of the capital stock, with a value of EUR 2,200 thousand were used for share-based compensations. The difference of EUR 1,230 thousand between this amount and the historic repurchase value was written to the capital reserve.

Corporate Governance Report

The corporate Governance report is integrated into this Annual Report and additional details are available on OMV's website: www.omv.com > Investor Relations > Corporate Governance & Organization.

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

The following information is disclosed according to section 243a 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) Arbeitsverfassungsgesetz (Austrian Labor Constitution Act). Resolutions concerning the dismissal of members of the Supervisory Board pursuant to section 87 (8) Aktiengesetz (Austrian Stock Corporation Act) require a simple majority of the votes cast. To approve capital increases pursuant to section 149 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 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 to 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) to 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 (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 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. 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 points 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. 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 5-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 5-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.
- **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 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.

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.

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 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 centrally managed 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 OMV, OMV Petrom and OMV Petrol Ofisi level.

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

At OMV, we have a long tradition of responsible behavior towards the environment and society. We aim at providing energy for a sustainable development of society, environment, and economy alike. OMV is strongly committed to act on climate change mitigation and has therefore set in 2016 new targets to manage and reduce the carbon footprint of our operations and products. Furthermore, OMV ran an efficient community engagement program in the operating countries.

The OMV sustainability strategy Resourcefulness brings together our commitments on health, safety, security, environment, business ethics, human rights, diversity and stakeholder engagement. Two governance bodies manage and oversee our Resourcefulness strategy: the Resourcefulness Executive Team and the Resourcefulness Advisory Board. OMV's governance bodies are chaired by the CEO of OMV Group as well as the CEO of OMV Petrom.

Health, Safety, Security and Environment (HSSE) are key values of OMV. The physical and mental health, well-being and safety of the people, as well as the integrity of OMV 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 of OMV Group was 0.40 (2015: 0.27), and the combined Total Recordable Injury Rate was 0.69 (2015: 0.73).

OMV is strongly committed to acting 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% until 2021 compared to 2013. Overall, more than 50,000 t CO₂ emission savings were achieved in 2016 at the refineries.

Research and Development

OMV Aktiengesellschaft is not performing research and development projects itself, but coordinates the group-wide research and development projects.

Outlook 2017 for OMV Group

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 cost by 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 is 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 has agreed to sell OMV Petrol Ofisi to VIP Turkey Enerji AS 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.

Vienna, March 22, 2017

The Executive Board



Rainer Seele
Chairman



Reinhard Florey



Johann Pleininger



Manfred Leitner