Directors' report – operational review

Business developments in 2017

Sales for the financial year 2017 were EUR 129.00 mn (2016: EUR 115.98 mn). As OMV Aktiengesellschaft is a holding company, most of the sales consist of corporate service charges billed to the subsidiaries, which slightly increased compared to the previous year.

The **Operating Result** was at EUR (43.07) mn (2016: EUR 221.14 mn). Higher Operating Result 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 2017 was EUR 838.00 mn (2016: EUR (132.96) mn). The financial items of OMV Aktiengesellschaft as a holding company mainly consist of the dividends and other income from investments in the operative companies. Net income from investments was EUR 990.16 mn and thus substantially higher than 2016 (EUR (26.11) mn), mainly because of higher Downstream Oil contribution in 2017. In addition, the dividend of OMV Petrom amounting to EUR 95.77 mn was also higher than last year (2016: EUR nil).

The contribution of the companies in the **Upstream** segment excluding OMV Petrom amounting to EUR nil was on the same level as 2016.

The contribution of the companies in the **Downstream** segment excluding OMV Petrom was substantially higher than previous year, at EUR 859.43 mn (2016: EUR (38.82) mn). Investment income from the Downstream Oil segment excluding OMV Petrom increased to EUR 772.66 mn (2016: EUR 276.22 mn). The higher result derives from higher refining margins. The investment income contribution from the Downstream Gas segment excluding OMV Petrom for profit pooling improved significantly to EUR 86.77 mn (2016: EUR (330.32) mn) compared to previous year. Dividends from the Downstream Gas segment amounting to EUR nil were below previous year (2016: EUR 15.28 mn). The higher Downstream Gas result in 2017 reflected the improved gas market environment.

In 2017, there have been no **investments** in the form of capital injections from OMV Aktiengesellschaft.

The **cash flow** from operating activities for 2017 amounted to EUR 53.47 mn (2016: EUR 153.16 mn), the cash flow from investing activities to EUR 1,033.80 mn (2016: EUR (2,645.72) mn) and the cash flow from financing activities to EUR 223.51 mn (2016: EUR 2,964.83 mn).

Net income for the year amounted to EUR 782.20 mn (2017: EUR 239.32 mn).

Total assets increased to EUR 18,071.12 mn (2016: EUR 17,354.68 mn).

At balance sheet date, **stockholders' equity** stood at EUR 5,298.24 mn (2016: EUR 4,896.99 mn). The equity ratio as of December 31, 2017, was 29.32% (2016: 28.22%).

The ratio of **fixed assets** to total assets was 71.46% at balance sheet date (2016: 80.74%).

Return On Equity was 15.34% (2016: 4.85%).

In 2017, the average **number of employees** at the holding company was 379 (2016: 384).

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 772,230 own shares, or 0.24% 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, 52,139 shares, equivalent to 0.02% of the capital stock, with a value of EUR 1,924 thousand were used for share-based compensations. The difference of EUR 1,352 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 the 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)

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 rights 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 (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 18, 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. The hybrid bears a fixed interest rate of 6.75% until, but excluding, 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 call 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 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 call 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 and bonds issued by OMV 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 of the Supervisory Board, or through ad hoc audits. The results of those audits are presented to the Audit Committee of the Supervisory Board. 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 of the Supervisory Board.

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. The Group's risk management processes focus on risk identification, assessment and evaluation of such risks and their impact on the Group's financial stability and profitability in order to actively manage them in the context of the Group's risk appetite and defined risk tolerance levels.

It is OMV's view that the Group's overall risk is significantly reduced due to its integrated nature 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 Treasury and Risk Management 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.

Enterprise Wide Risk Management

Non-financial and financial risks are regularly identified, assessed and reported through the Group-wide Enterprise Wide Risk Management (EWRM) process.

The main purpose of the OMV Group's EWRM is to deliver value through risk-based management and 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. OMV Group is constantly enhancing the EWRM based on internal and external requirements.

A cross-functional committee chaired by the OMV Group CFO with senior management members of the OMV Group – the Risk Committee – ensures that the EWRM effectively captures and manages the material risks across the OMV Group.

The process is facilitated by a Group-wide IT system supporting the established individual process steps: 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 using 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 risks implied in the strategy. 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

- Operational risks, including all risks related to physical assets, production risks, project risks, personnel risks, IT risks, HSSE and regulatory/compliance risks
- Strategic risks arising, for example, from changes in technology, risks to reputation or political uncertainties, including sanctions
- Financial risks including market price risks and foreign exchange risks

OMV operates and has financial investments in countries that are subject to political uncertainties – in particular, Libya, Kazakhstan, Yemen, Pakistan, Russia, Tunisia and Turkey. Possible political changes may lead to disruptions and limitations in production as well as an increased tax burden, restrictions on foreign ownership or even nationalization of property. However, OMV has extensive experience in the political environment in Central, Eastern and Southeastern Europe, and political developments in all markets where OMV operates are kept under constant observation. Country-specific risks are assessed before entering new countries. OMV evaluates the risk of potential US or EU sanctions and their impact on planned or existing operations with the aim to stay in full compliance with all applicable sanctions. Risks related to the EU Emission Trading Scheme are separately recorded and aggregated for the Group as a whole. Furthermore, OMV is monitoring emerging regulations related to climate change and decarbonization 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. The OMV Group is exposed to a wide range of health, safety, security and environmental risks that could result in significant losses.

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, environment, legal matters, compliance, human resources and corporate social responsibility, with special emphasis on human rights and market price risks.

Financial Risk Management

Market price and financial risks arise from volatility in the prices of commodities, foreign exchange (FX) rates and 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, TRY and RUB. The Group has a net USD long position, mainly resulting from sales of oil production. The comparably less significant short positions in RON, NOK and RUB originate from expenses in local currencies in the respective countries.

Analysis and management of financial risks arising from foreign currencies, interest rates, commodity prices, counter-parties, liquidity and insurable risks are undertaken in a consolidated way at the corporate level. Market price risk is monitored and analyzed centrally in respect of the potential cash flow impact using a specific risk analysis model that considers portfolio effects. The impact of financial risks (e.g. market prices, currencies) on the OMV Group's cash flow and liquidity are reviewed quarterly by the Financial Risk Committee, which is chaired by the CFO and comprised of senior management of the Business Segments and corporate functions. The Financial Risk Committee is also responsible for reviewing the risk governance framework of the OMV Group and proposing changes to the OMV Executive Board.

In the context of market price risk and FX risk, the OMV Executive Board decides on hedging strategies to mitigate such risks whenever deemed necessary. To protect the Group's cash flow from the potential negative impact of falling oil and gas prices in the Upstream business, OMV uses financial instruments for hedging purposes.

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 undertaken. Those include margin hedges as well as stock hedges. In addition, Emission Compliance Management ensures a balanced position of emission allowances by selling the surplus or covering the gap.

To balance the Group's interest rate portfolio, loans can be converted from fixed to floating rates and vice versa according to predefined rules. OMV regularly analyzes the impact of interest rate changes on interest income and expense from floating rate deposits and borrowings. Currently the effects of changes in interest rate are not considered to be a material risk.

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 Group and OMV Petrom level.

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

At OMV, there has been a long tradition of responsible behavior towards employees, the environment and society. In 2017, OMV started the process of reviewing its sustainability strategy with the aim of embedding it into the Group strategy and aligning it with the new OMV purpose, business reason and principles. In several meetings and workshops with the Executive Board and senior management, the updated sustainability definition and focus areas were developed. In addition, the process to define measurable external commitments for each focus area was initiated. Sustainability for OMV means creating long-term value for our customers and shareholders by being innovative and an employer of choice. We conduct our business in a responsible way, respecting the environment and adding value to the societies in which we operate.

In 2017, OMV performed a comprehensive materiality analysis in accordance with the new Global Reporting Initiative Standards and the new Austrian law related to non-financial disclosure. A total of 260 internal and external stakeholders have been engaged in this process. The results of the process have been evaluated at the business level (Upstream, Downstream Oil and Downstream Gas) and consolidated at the Group level. Following the outcome of the sustainability strategy review process and the materiality analysis, five focus areas were defined: Health, Safety, Security and Environment, Carbon Efficiency, Innovation, Employees as well as Business Principles and Social Responsibility.

Health, safety, security and protection of the environment are key values at OMV. The integrity of OMV operating facilities, loss prevention, proactive risk management and acting on climate change mitigation are essential to reaching OMV's HSSE vision of "ZERO harm – NO losses." In order to achieve this vision, during 2017 the OMV Group HSSE Strategy 2020 was established as an integral part of the OMV Sustainability Strategy. The HSSE strategy was launched by the Executive Board in conjunction with a commitment ceremony. It builds on the successes of OMV and addresses areas for enhancement through goals and objectives being set with respect to the following: Health, Safety, Security and Environment.

In 2017, the combined Lost-Time Injury Rate (LTIR) for OMV Group employees and contractors was 0.34 (2016: 0.40), and our combined Total Recordable Injury Rate (TRIR) was 0.79 (2016: 0.70).

OMV is strongly committed to acting on climate change mitigation and responsible resource management and has accordingly set targets to manage and reduce the carbon footprint of its operations and products. The key target is to reduce OMV Group's overall carbon intensity by 10% by 2021 compared to 2013. This will be achieved by improving energy efficiency across all operations and implementing projects that reduce direct Greenhouse Gas emissions.

Research and Development

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

Outlook for OMV Group

Market environment
For the year 2018, OMV expects the average Brent oil price to be at USD 60/bbl. In 2018, average European gas spot prices are anticipated to be on a similar level compared to 2017.

Group
In 2018, capital expenditure (CAPEX) including capitalized exploration and appraisal activities and excluding acquisitions is projected to come in around EUR 1.9 bn.

Upstream

OMV expects total production of 420 kboe/d in 2018. The production from Russia is planned to contribute around 100 kboe/d. In 2018, production in Libya is forecasted to be at a similar level to that of 2017. CAPEX for Upstream (including capitalized E&A and excluding acquisitions) is anticipated to come in around EUR 1.3 bn in 2018. Exploration and appraisal expenditure is expected to be at EUR 300 mn.

Downstream

In 2018, the refining margins are projected to be lower than in 2017. Petrochemical margins are forecasted to be at a similar level to those in 2017. In OMV's markets, retail and commercial margins are predicted to be on a level similar to 2017. The total refined product sales will be lower in 2018 compared to 2017, following the divestment of OMV Petrol Ofisi in June 2017. The utilization rate of the refineries is expected to be above 90% in 2018. This includes the planned full-site turnaround at the Petrobrazi refinery scheduled for approximately six weeks in Q2/18.

The natural gas sales volumes are projected to be higher in 2018 than in 2017. Natural gas sales margins are forecasted to be at a similar level in 2018 to those in 2017. The net electrical output is expected to slightly increase in 2018, as a result of the full availability of the Brazi power plant. OMV will continue to finance the Nord Stream 2 pipeline subject to the progress of the project financing from the capital markets.

Vienna, March 14, 2018

The Executive Board

Rainer Seele m.p. Chairman	**Johann Pleininger m.p.** Deputy Chairman	**Reinhard Florey m.p.**	**Manfred Leitner m.p.**