Directors' report – operational review

Business developments in 2018

Sales for the financial year 2018 were EUR 213.50 mn (2017: EUR 129.00 mn). As OMV Aktiengesellschaft is a holding company, most of the sales consist of group charges and corporate service charges billed to the subsidiaries. The latter increased compared to the previous year mainly due to a transfer of the OMV Global Solutions GmbH business operations to OMV Aktiengesellschaft.

The **Operating Result** was EUR (70.84) mn (2017: EUR (43.07) mn). The lower Operating Result in 2018 was mainly driven by higher personnel expenses, including an increase of pension provisions due to new mortality tables.

The **Financial Result** in 2018 was EUR 502.86 mn (2017: EUR 838.00 mn). The financial items of OMV Aktiengesellschaft as a holding company mainly consist of the dividends and other income from investments in the operating companies, net of losses taken over from affiliated companies and impairments of participations. Net income from investments amounted to EUR 608.97 mn (2017: EUR 990.16 mn). The dividend of OMV Petrom amounting to EUR 124.18 mn was higher than last year (2017: EUR 95.77).

The contribution of the companies in the **Upstream** segment excluding OMV Petrom amounted to EUR (3.86) mn, below the level of 2017 (EUR nil).

The contribution of the companies in the **Downstream** segment excluding OMV Petrom was substantially lower than the previous year, at EUR 469.85 mn (2017: EUR 884.43 mn). Investment income from the Downstream Oil segment excluding OMV Petrom decreased to EUR 607.35 mn (2017: EUR 797.66 mn). The lower result derives from lower refining margins. The investment income contribution from the Downstream Gas segment excluding OMV Petrom for profit pooling decreased significantly to EUR (137.51) mn (2017: EUR 86.77 mn) compared to the previous year.

There were no dividends distributed from the Downstream Gas segment, as in the previous year. The higher Downstream Gas result in 2017 reflected the improved gas market environment.

A key **investment item** in 2018 was a capital injection to OMV Exploration & Production GmbH in connection with its investments into its subsidiary OMV Abu Dhabi Production GmbH.

The **cash flow** from operating activities for 2018 amounted to EUR 1,966.89 mn (2017: EUR 53.47 mn), the cash flow from investing activities to EUR (2,081.59) mn (2017: EUR 1,033.80 mn) and the cash flow from financing activities to EUR (290.26) mn (2017: EUR 223.51 mn).

Net income for the year amounted to EUR 411.38 mn (2017: EUR 782.20 mn).

Total assets increased to EUR 18,383.31 mn (2017: EUR 18,071.12 mn).

At balance sheet date, **stockholders' equity** stood at EUR 5,220.76 mn (2017: EUR 5,298.24 mn). The equity ratio as of December 31, 2018, was 28.40% (2017: 29.32%).

The ratio of **fixed assets** to total assets was 77.53% at balance sheet date (2017: 71.46%).

Return On Equity was 7.82% (2017: 15.85%).

In 2017, the average **number of employees** at the holding company was 623 (2017: 379). The increase is related to the transfer of the OMV Global Solutions GmbH business operations.

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 542,151 own shares, or 0.17% 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, 230,079 shares, equivalent to 0.07% of the capital stock, with a value of EUR 9,861 thousand were used for share-based compensations. The difference of EUR 7,336 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>Investors> Annual Reports.

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 in place between the two core shareholders, Österreichische Beteiligungs AG (ÖBAG) and Mubadala Petroleum and Petrochemicals Holding Company L.L.C (MPPH), which provides for coordinated behavior and certain limitations on transfers of shareholdings.

3. ÖBAG holds 31.5% and MPPH 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) As the authorized capital granted by the Annual General Meeting on May 13, 2009 expired on May 13, 2014, the Annual General Meeting decided upon a new authorized capital on May 14, 2014. Specifically, it authorized the Executive Board until May 14, 2019 to increase the share capital of OMV with the consent of the Supervisory Board – at once or in several tranches – by an amount of up to EUR 32,727,272 by issuing up to 32,727,272 new no-par value common voting shares in bearer form in return for contributions in cash. The capital increase can also be implemented 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. The issue price and the conditions of issuance can be determined by the Executive Board with the consent of the Supervisory Board. The Annual General Meeting also authorized the Executive Board, subject to the approval of the Supervisory Board, to exclude the subscription right of the shareholders if the capital increase serves to

   (i) adjust fractional amounts or

   (ii) 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.

   In addition, the Supervisory Board was authorized to adopt amendments to the Articles of Association resulting from the issuance of shares according to the authorized capital.

7. 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 Austrian Commercial Code) or by third parties for the account of the Company.

8. a) The EUR 750 mn hybrid bond, which was issued in 2011, was called and redeemed at its nominal value plus interest on April 26, 2018, the first possible call date.

8. b) OMV has issued perpetual hybrid notes the amount of EUR 1,987 mn which are subordinated to all other creditors. According to IFRS, the proceeds of the hybrid notes are fully treated as equity because the repayment of the principal and the payments of interest are solely at the discretion of OMV.

On December 7, 2015, OMV issued hybrid notes with an aggregate size of EUR 1,500 mn, in two tranches of EUR 750 mn each with the following interest payable:

(i) The hybrid notes of tranche 1 bear a fixed interest rate of 5.250% until, but excluding, December 9, 2021, which is the first call date of tranche 1. From December 9, 2021, until, but excluding, December 9, 2025, hybrid notes of tranche 1 will bear interest according to a 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 1% per annum.

(ii) The hybrid notes of tranche 2 bear a fixed interest rate of 6.250% until, but excluding, December 9, 2025, which is the first call date of tranche 2. From December 9, 2025, tranche 2 will bear interest according to a 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 1% per annum.

Interest is due and payable annually in arrears on December 9 of each year, unless OMV elects to defer the relevant interest payments. The outstanding deferred interest must be paid under certain circumstances, in particular, if the General Meeting of OMV resolves upon a dividend payment on OMV shares.

On June 19, 2018 OMV issued a hybrid bond with a size of EUR 500 mn. The hybrid bears a fixed interest rate of 2.875% until, but excluding, June 19, 2024. From June 19, 2024 until, but excluding, June 19, 2028 the hybrid notes will bear interest at a rate according to the relevant five-year swap rate and an additional margin of 2.335% per annum and, from June 19, 2028, with an additional step-up of 1% per annum. Interest is due and payable annually in arrears on June 19 of each year, unless OMV elects to defer the relevant interest payments. The outstanding deferred interest must be paid under certain circumstances, in particular, if the General Meeting of OMV resolves upon a dividend payment on OMV shares.

The hybrid notes outstanding as of December 31, 2018 do not have a scheduled maturity date and they 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. Any accrued unpaid interest becomes payable when the bond is redeemed. 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. 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. 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. 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

Like 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 enhance risk awareness and risk management skills across the entire organization, including subsidiaries in more than 20 countries. The 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. The 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 nonfinancial 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. An analysis to assess the potential impact of a hard Brexit scenario on OMV Group companies was undertaken, which showed that there is no significant impact expected. OMV also 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. In particular risks due to US sanctions on the Nord Stream 2 project and on OMV's activities in Russia are regularly assessed and monitored. Risks related to the EU Emissions Trading System 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, NZD, 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.

Management of market price risk and FX risk

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 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 Risk Committee, which is chaired by the CFO and comprised of senior management of the Business Segments and corporate functions. The 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.

Management of interest rate risk

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 rates are not considered to be a material risk.

Management of credit 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)

In the era of energy transition, the goal of OMV's business is to provide "oil & gas at its best". The growing demand for energy and accelerating climate change pose immense challenges for the energy sector. The key lies in finding the balance between climate protection efforts, affordable energy, and reliable supply. This means producing and using oil and gas as sensibly and responsibly as possible to safeguard the energy supply. We pledge to conduct our business responsibly by protecting the environment, aiming to be an employer of choice, and creating long-term value for our customers, shareholders, and society.

In line with the sustainable approach to the business, OMV has developed the Sustainability Strategy 2025 as an integral part of OMV's Corporate Strategy 2025. The Strategy includes 15 measurable targets set in the five focus areas: Health, Safety, Security, and Environment (HSSE), Carbon Efficiency, Innovation, Employees, as well as Business Principles and Social Responsibility. For a lower-carbon future OMV will invest up to EUR 500 mn by 2025 in innovative energy solutions such as ReOil® and Co-Processing and will implement carbon efficiency measures.

To achieve this vision, the OMV Group's HSSE Strategy 2020/2025 was established as an integral part of the OMV Sustainability Strategy. The HSSE Strategy focuses on the cross-functional goals of strong HSSE commitment and leadership, increased efficiency and effectiveness of HSSE processes, management of HSSE risks and competent people, as well as subject matter goals in the areas of: Health, Safety, Security and Environment.

In 2018, the combined Lost-Time Injury Rate (LTIR) for OMV employees and contractors was 0.30 (2017: 0.34), and our combined Total Recordable Injury Rate (TRIR) was 0.78 (2017: 0.79).

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 principal targets are to reduce OMV's overall operations carbon intensity by 19% by 2025 and to reduce the product carbon intensity by 4% by 2025, both compared with 2010. This will be achieved by improving energy efficiency across all operations and implementing projects that reduce direct GHG emissions and by increasing the share of natural gas in our product portfolio.

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 2019, OMV expects the average Brent oil price to be at USD 65/bbl (2018: USD 71/bbl). In 2019, average European gas spot prices are anticipated to be lower compared to 2018.

Group
In 2019, organic capital expenditure (including Capitalized exploration and appraisal expenditure and excluding acquisitions) is projected to come in at EUR 2.3 bn (2018: EUR 1.9 bn).

Upstream
OMV expects total production to be around 500 kboe/d in 2019 (2018: 427 kboe/d). The production at El Sharara in Libya is currently suspended. The field is expected to resume production as of March 2019, after which we assume a total contribution from Libya of 35 kboe/d (2018: 30 kboe/d) until year-end, depending on the security situation. The organic capital expenditure for Upstream (including capitalized exploration and appraisal expenditure and excluding acquisitions) is anticipated to come in at EUR 1.5 bn in 2019. In 2019, exploration and appraisal expenditure is expected to be at EUR 350 mn (2018: EUR 300 mn).

Downstream

In 2019, the refining indicator margin will be at the level of around USD 5/bbl (2018: USD 5.2/bbl). Petrochemical margins will be slightly lower than in 2018 (2018: EUR 448/t). The total refined product sales in 2019 are forecasted to be on similar level compared to 2018 (2018: 20.3 mn t). In OMV's markets, retail and commercial margins are predicted to be similar compared to those in 2018. There is no planned turnaround of the refineries in 2019. Therefore, the utilization rate of the refineries is expected to be higher than in 2018 (2018: 92%).

The natural gas sales volumes in 2019 are projected to be above to those in 2018 (2018: 114 TWh). Natural gas sales margins are forecasted to be lower in 2019 compared to 2018. Due to the divestment of the Samsun power plant in Turkey in Q3/18, the net electrical output in 2019 will be lower than in 2018 (2018: 5.1 TWh). The net electrical output of the Brazi power plant in Romania is expected to be above the level of 2018. OMV will continue to finance the Nord Stream 2 pipeline.

Vienna, March 13, 2019

The Executive Board

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