

S.C. OMV PETROM S.A.

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2013

Prepared in accordance with Order of the Ministry of
Public Finance no. 1286/2012 approving the accounting
regulations compliant with the International Financial
Reporting Standards

**TOGETHER WITH THE INDEPENDENT AUDITORS'
REPORT**

CONTENTS	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION	3 - 4
INCOME STATEMENT	5
STATEMENT OF COMPREHENSIVE INCOME	6
STATEMENT OF CHANGES IN EQUITY	7 - 8
STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 62

INDEPENDENT AUDITORS' REPORT

To the Shareholders of S.C. OMV Petrom S.A.

1. We have audited the accompanying financial statements of OMV Petrom S.A. ("the Company"), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

6. In our opinion, the financial statements give a true and fair view of the financial position of OMV Petrom S.A. as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications.

Report on other legal and regulatory requirements

In accordance with the Order of the Minister of Public Finance no. 1286/2012, article no. 16 point c) from Chapter II, we have read the Directors' Report. The Directors' Report is not a part of the financial statements. In the Directors' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements as at 31 December 2013.

On behalf of

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors in Romania
Nr. 77/ 15 August 2001

Name of signing person: Bogdan Ion

Registered with the Chamber of Financial Auditors in Romania
Nr. 1565/ 29 July 2004

Bucharest, Romania
25 March 2014

Name of signing person: Ariana Cora

Registered with the Chamber of Financial Auditors in Romania
Nr. 1593/ 16 August 2005

Bucharest, Romania
25 March 2014

S.C. OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013

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

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Intangible assets	4	754.40	896.33
Property, plant and equipment	5	27,232.04	24,881.75
Investments	6	2,174.35	1,914.13
Other financial assets	7	3,434.57	4,109.61
Other assets	8	-	11.73
Deferred tax assets	16	865.12	905.50
Non-current assets		34,460.48	32,719.05
Inventories	9	1,526.74	1,725.31
Trade receivables	7	1,312.17	1,711.71
Other financial assets	7	353.54	511.46
Other assets	8	155.66	113.51
Cash and cash equivalents		1,083.08	557.25
Current assets		4,431.19	4,619.24
Assets held for sale	10	3.10	72.57
Total assets		38,894.77	37,410.86
EQUITY AND LIABILITIES			
Share capital	11	5,664.41	5,664.41
Adjustments of share capital		-	13,318.96
Adjusted share capital	11	5,664.41	18,983.37
Reserves		20,500.34	3,928.08
Equity		26,164.75	22,911.45
Provisions for pensions and similar obligations	12	296.81	232.86
Interest-bearing debts	13	1,253.73	1,717.05
Provisions for decommissioning and restoration obligations	12	5,663.62	5,751.91
Other provisions	12	593.44	628.11
Other financial liabilities	14	265.67	129.02
Non-current liabilities		8,073.27	8,458.95

The notes on pages 10 to 62 form part of these financial statements.

S.C. OMV PETROM S.A.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2013	December 31, 2012
Trade payables	14	2,341.02	2,268.52
Interest-bearing debts	13	532.48	1,493.88
Current income tax payable		239.07	237.38
Other provisions and decommissioning	12	657.00	1,192.64
Other financial liabilities	14	286.16	329.64
Other liabilities	15	601.02	518.40
Current liabilities		4,656.75	6,040.46
Total equity and liabilities		38,894.77	37,410.86

These financial statements were approved on March 25, 2014.



Mrs. Mariana Gheorghe
Chief Executive Officer



Mr. Andreas Matje
Chief Financial Officer



Mr. Gabriel Selischi
E.B. Member E&P



Mr. Cristian Secosan
E.B. Member Gas & Power



Mr. Neil Morgan
E.B. Member Refining & Marketing



Mrs. Alina Popa
Director Finance Department



Mr. Eduard Petrescu
Head of Financial Reporting

S.C. OMV PETROM S.A.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2013	December 31, 2012
Sales revenues	24	18,087.52	19,122.51
Direct selling expenses		(37.81)	(21.56)
Cost of sales		(11,554.98)	(12,653.50)
Gross profit		6,494.73	6,447.45
Other operating income	17	245.41	144.07
Selling expenses		(309.69)	(318.02)
Administrative expenses		(100.63)	(112.79)
Exploration expenses		(423.45)	(329.53)
Other operating expenses	18	(574.47)	(763.36)
Earnings before interest and taxes (EBIT)		5,331.90	5,067.82
Income from investments	20	533.74	287.11
Interest income	21	284.22	182.77
Interest expenses	21	(382.91)	(857.12)
Other financial income and expenses	22	(99.86)	(97.11)
Net financial result		335.19	(484.35)
Profit from ordinary activities		5,667.09	4,583.47
Taxes on income	23	(827.76)	(732.86)
Net income for the year		4,839.33	3,850.61

These financial statements were approved on March 25, 2014.



Mrs. Mariana Gheorghe
Chief Executive Officer



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Chief Financial Officer



Mr. Gabriel Selischi
E.B. Member E&P



Mr. Cristian Secosan
E.B. Member Gas & Power



Mr. Neil Morgan
E.B. Member Refining & Marketing



Mrs. Alina Popa
Director Finance Department



Mr. Eduard Petrescu
Head of Financial Reporting

S.C. OMV PETROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Net income for the year	4,839.33	3,850.61
Unrealized gains/ (losses) on hedges	-	(250.62)
Realized (gains)/ losses on hedges recycled to income statement	-	393.08
Total of items that may be reclassified ("recycled") subsequently to the income statement	-	142.46
Income tax relating to components of other comprehensive income	-	(22.79)
Other comprehensive income for the year, net of tax	-	119.67
Total comprehensive income for the year	4,839.33	3,970.28

The notes on pages 10 to 62 form part of these financial statements.

S.C. OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

	<u>Share capital</u>	<u>Adjustments of share capital</u>	<u>Adjusted share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Cash flow hedging reserve</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>
Balance at January 1, 2013	5,664.41	13,318.96	18,983.37	(2,382.99)	6,311.09	-	(0.02)	22,911.45
Net income for the year	-	-	-	4,839.33	-	-	-	4,839.33
Other comprehensive income for the year	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,839.33	-	-	-	4,839.33
Dividends distribution	-	-	-	(1,586.03)	-	-	-	(1,586.03)
Allocation to legal reserve	-	-	-	(93.23)	93.23	-	-	-
Adjustments to share capital and retained earnings	-	(13,318.96)	(13,318.96)	13,318.96	-	-	-	-
Balance at December 31, 2013	5,664.41	-	5,664.41	14,096.04	6,404.32	-	(0.02)	26,164.75

Note: For details on reserves, see Note 11.

The notes on pages 10 to 62 form part of these financial statements.

S.C. OMV PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012
(all amounts are expressed in million RON, unless otherwise specified)

	<u>Share capital</u>	<u>Adjustments of share capital</u>	<u>Adjusted share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Cash flow hedging reserve</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>
Balance at January 1, 2012	5,664.41	13,318.96	18,983.37	(4,264.09)	6,097.54	(119.67)	(0.02)	20,697.13
Net income for the year	-	-	-	3,850.61	-	-	-	3,850.61
Other comprehensive income for the year	-	-	-	-	-	119.67	-	119.67
Total comprehensive income for the year	-	-	-	3,850.61	-	119.67	-	3,970.28
Dividends distribution *)	-	-	-	(1,755.96)	-	-	-	(1,755.96)
Allocation to legal reserve	-	-	-	(213.55)	213.55	-	-	-
Balance at December 31, 2012	5,664.41	13,318.96	18,983.37	(2,382.99)	6,311.09	-	(0.02)	22,911.45

Notes:

For details on reserves, see Note 11.

*) Dividends distribution for the year ended December 31, 2011 has been done based on financial statements prepared in accordance with MOF 3055/2009.

The notes on pages 10 to 62 form part of these financial statements.

S.C. OMV PETROM S.A.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2013	December 31, 2012
Cash flow from operating activities			
Profit before taxation		5,667.09	4,583.47
Adjustments for:			
Dividend income	20	(533.74)	(287.11)
Interest income	21	(160.64)	(161.77)
Interest expenses and other financial expenses	21, 22	184.39	400.90
Net movement in provisions and allowances for:			
- Financial assets		(174.60)	(81.30)
- Inventories		(61.37)	28.27
- Receivables		12.84	86.13
- Pensions and similar liabilities		63.95	47.47
- Decommissioning and restoration obligations		54.44	111.47
- Other provisions for risk and charges		(123.67)	(510.10)
Discounting/Write-off of receivables and other similar items		(29.37)	215.69
Cash flow hedge recycled through income statement		-	83.94
(Gain)/Loss on disposals of financial assets		120.21	141.87
(Gain)/Loss on disposals of fixed assets	17, 18	(9.23)	63.91
Depreciation, amortization and impairment expense	4, 5, 19	2,864.10	2,304.29
Other non-cash items		53.58	(6.19)
Dividends received		542.35	277.90
Interest received		94.40	158.33
Interest paid		(137.53)	(146.96)
Tax on profit paid		(785.73)	(853.16)
Cash generated from operating activities before working capital movements		7,641.47	6,457.05
(Increase)/Decrease in inventories		147.09	(86.43)
(Increase)/Decrease in receivables and other assets		335.68	207.94
Increase/(Decrease) in liabilities		(545.04)	86.39
Net cash generated from operating activities		7,579.20	6,664.95
Cash flow from investment activities			
Purchase of tangible and intangible assets		(4,634.28)	(4,791.28)
Proceeds from sale of fixed assets		40.49	59.10
Proceeds from sale of financial assets	27	91.52	9.92
Investments in subsidiaries	27	(397.78)	(29.00)
Loans reimbursed by subsidiaries		875.61	155.80
Net cash used for investment activities		(4,024.44)	(4,595.46)
Cash flow from financing activities			
Increase in/ (Repayment of) loans taken from subsidiaries		(617.02)	134.95
Net repayment of other loans	27	(837.59)	(475.01)
Dividends paid		(1,574.28)	(1,741.38)
Net cash used for financial activities		(3,028.89)	(2,081.44)
Effect of foreign exchange rate changes on cash and cash equivalents		(0.04)	2.19
Net increase/(decrease) in cash and cash equivalents		525.83	(9.76)
Cash and cash equivalents at the beginning of the year		557.25	567.01
Cash and cash equivalents at the end of the year		1,083.08	557.25

The notes on pages 10 to 62 form part of these financial statements.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION

OMV Petrom S.A. (22 Coralilor Street, 013329 Bucharest, Romania), hereinafter referred to also as "the Company" or "Petrom", has activities in Exploration and Production (E&P), Gas and Power (G&P), Refining and Marketing (R&M) segments and is listed on Bucharest Stock Exchange under "SNP" code.

Shareholders' structure as at December 31, 2013 was as follows:

	Percent
OMV Aktiengesellschaft	51.01%
Ministry of Economy	20.64%
Property Fund S.A.	18.99%
Legal entities and individuals	9.36%
Total	100.00%

On May 17, 2013 Property Fund S.A. sold 632,482,000 shares in OMV Petrom S.A. on the Bucharest Stock Exchange. The sale represented 1.12% of OMV Petrom S.A.'s total shares. Thus, the Property Fund S.A. stake in OMV Petrom S.A. diminished from 20.11% at the end of 2012 to 18.99% at the end of 2013.

On November 15, 2013 the European Bank for Reconstruction and Development (EBRD) sold all its 918,216,049 shares in OMV Petrom S.A. on the Bucharest Stock Exchange. The sale represented 1.62% of OMV Petrom S.A.'s total shares.

Consequently, the free float increased to 9.36%.

Statement of compliance

The separate financial statements of the Company have been prepared in accordance with the provisions of Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications.

The Company also prepares consolidated financial statements in accordance with IFRS as endorsed by the EU, which are available on the Company's website www.petrom.com/portal/01/petromcom/petromcom/Petrom/Relatia_cu_investitorii.

Basis of preparation

The financial statements of OMV Petrom S.A. are presented in RON ("Romanian Leu"), using going concern principles. All values are presented in millions, rounded to the nearest 2 decimals. The financial statements are prepared in general on the historical cost principle, except for the certain items that have been measured at fair value as described in Note 28 Fair value of financial assets and liabilities.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those of the previous financial year except for the following new interpretations and amendments to the existing standards and interpretations issued by the International Accounting Standards Board and endorsed by EU that became effective in the current period, but had no significant effects on the financial statements:

- IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards – Government loans
- IAS 19 Employee Benefits (Revised)
- IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual Improvements to IFRSs 2009 – 2011 Cycle that included specific changes to IAS 1, IAS 16, IAS 32 and IAS 34.

Standards and Interpretations issued by IASB but not yet effective and not early adopted

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

- **IAS 27 Separate Financial Statements (Revised)**
For companies which apply IFRS as endorsed by the EU the standard is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- **IAS 28 Investments in Associates and Joint Ventures (Revised)**
For companies which apply IFRS as endorsed by the EU, the standard is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.
- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

- **IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments to IFRS 9 and IFRS 7-Mandatory Effective Date and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39**

IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The subsequent package of amendments issued in November 2013 initiate further accounting requirements for financial instruments. These amendments a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. These standard and subsequent amendments have not yet been endorsed by the EU. The Company will quantify potential effects when the final standard including all phases is issued.

- **IFRS 10 Consolidated Financial Statements**

For companies which apply IFRS as adopted by the EU, the standard is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities.

- **IFRS 11 Joint Arrangements**

For companies which apply IFRS as adopted by the EU, the standard is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- **IFRS 12 Disclosures of Interests in Other Entities**

For companies which apply IFRS as adopted by the EU, the standard is effective for annual periods beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. A number of new disclosures are also required.

- **IFRS 14 Regulatory Deferral Accounts**

The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This standard has not yet been endorsed by the EU.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**

This amendment is effective for annual periods beginning on or after 1 January 2014. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**

This amendment is effective for annual periods beginning on or after 1 January 2014. Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment has not yet been endorsed by the EU.

- **IFRIC Interpretation 21: Levies**

The interpretation is effective for annual periods beginning on or after 1 January 2014. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation has not yet been endorsed by the EU.

- **Annual Improvements to IFRSs cycle 2010-2012 and cycle 2011-2013 - effective for annual periods beginning on or after 1 July 2014, not yet endorsed by EU. Earlier application is permitted in all cases, provided that fact is disclosed. This set of amendments published as part of the annual improvements process includes specific changes to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 and IAS 40.**

- **Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

For companies which apply IFRS as adopted by the EU, the guidance is effective for annual periods beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualifies as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities.

Early application of the above standards and interpretations is not foreseen by the Company. Potential effects in the respective years of initial application are currently being evaluated by management.

Significant estimates, assumptions and accounting judgments

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

Estimates and assumptions need to be made particularly with respect to the following:

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

The oil and gas assets are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas assets at December 31, 2013 is shown in Note 5.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.

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

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

Estimates of future restoration costs are based on current contracts concluded with suppliers, reports of Petrom engineers as well as on past experience. Provisions for restoration costs require estimates of discount rates and inflation rates. These estimates have a material effect on the amount of the provisions (see Note 12).

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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

c) In accordance with IAS 36, intangible assets as well as property, plant and equipment are reviewed at balance sheet date for any indications of impairment. If indicators that an impairment loss may have occurred are present, the Company makes a formal estimate of the recoverable amount of the cash generating unit or asset. The recoverable value is the higher of value in use and fair value less costs to sell. In most cases the Company formally estimates the value in use. The computation of value in use is based on budgets and forecasts and requires the use of a wide range of estimates and assumptions, such as future product prices and/or gross margins, growth rates, inflation rates, foreign exchange rates, discount rates etc.

Taking into account the challenging market conditions for gas power plants, Brazi Power Plant was tested for impairment as of December 31, 2013. The recoverable amount was based on the value in use. The relevant cash flows are in line with the mid-term planning assumptions of the Company, which cover three years, and on figures beyond that time frame that were prepared on the basis of macro-economic assumptions. The key valuation assumptions for the recoverable amount are the spark spreads (being the differences between the electricity prices and the gas prices), the power quantity produced and the amount of balancing revenues. The assumptions used for the first three years are based on forward prices, while the medium and long-term assumptions are consistent with data provided by external studies. The pre-tax discount rate used was 6.16%.

The pre-tax discount rates relevant for the computation of value in use (rates that reflect current market assessments of the time value of money and the risks specific to the asset/ cash generating unit) are specific for each segment. As at December 31, 2013, the relevant pre-tax discount rates for the other segments were: 8.6% for E&P (2012: 8.7%) and 7.2% for R&M (2012: 7.4%). The pre-tax rate relevant for the computation of value in use for G&P as at December 31, 2012 was 7.2%.

d) The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is probable that future economic benefits are likely either from future operation or sale or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in profit or loss in the period when the new information becomes available.

Significant judgments were made in particular with respect to the following:

a) Management exercises judgment in determining the appropriate level of grouping E&P assets into cash generating units, in particular with respect to the E&P assets which share significant common infrastructure and are consequently grouped into the same cash generating unit.

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES

a) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

b) Licence acquisition costs

Exploration licence acquisition costs are capitalized in intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the permit.

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

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas assets.

c) Exploration and appraisal costs

Exploration and appraisal costs are accounted for using the successful efforts method of accounting. Costs related to geological and geophysical activity are expensed as and when incurred. The costs associated to exploration and appraisal drilling are initially capitalized as oil and gas assets with unproved reserves pending determination of the commercial viability of the relevant properties. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are included in the profit and loss account for the year. If the prospects are deemed commercially viable, such costs are transferred to tangible oil and gas assets upon commencement of the production. The status of such prospects and related costs are reviewed regularly by technical, commercial and executive management including review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

d) Development and production costs

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

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

e) Intangible assets and property, plant and equipment

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

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

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, an impairment loss is recognized to reduce the asset to its lower recoverable amount. The asset's value is written back up to its depreciated cost if the reasons for recognition of an impairment loss disappear in subsequent periods. The difference is disclosed under other operating income.

Depreciation and amortization is calculated on a straight-line basis, except for E&P assets, where depletion occurs to a large extent on a unit-of-production basis. In the income statement, depreciation and amortization as well as impairment losses for exploration assets are disclosed as part of exploration expenses, and those for other assets are reported as cost of sales or as other operating expenses.

Intangible assets	Useful life (years)
Software	3 - 5
Concessions, licences and other intangibles	5 - 20, or contract duration
Business-specific property, plant and equipment	
E&P Oil and gas core assets	Unit of production method
G&P Gas pipelines	20 - 30
G&P Gas power plant	8 - 30
R&M Storage tanks and refinery facilities	25 - 40
R&M Pipeline systems	20
Other property, plant and equipment	
Production and office buildings	20 - 50
Other plant and equipment	10 - 20
Fixtures and fittings	5 - 10

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

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

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

Assets classified as held for sale are disclosed at the lower of carrying value and fair value net of any disposal costs. Non-current assets and groups of assets are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. This classification requires that the sale must be estimated as highly probable, and that the asset must be available for immediate disposal in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Advances for the acquisition of tangible and intangible assets are non-monetary items presented within property, plant and equipment and respectively within intangible assets.

f) Major maintenance and repairs

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

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

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

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

g) Leases

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

Property, plant and equipment contain assets being used under finance leases. Since the Company has all the risks and benefits incidental to ownership of the leased item, the assets must be capitalized at the commencement of the lease at the lower of the present value of minimum lease obligation and fair value of leased property, and then depreciated over their expected useful life or the duration of the lease, if shorter. A liability equivalent to the capitalized amount is recognized, and future lease payments are split into the finance charge and the capital repayment element.

All lease agreements not classified as finance leases are treated as operating leases and the operating lease payments then form part of the operating expenses in the income statement on a straight line basis over the lease term.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

h) Financial instruments

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date on which the agreement is settled by delivery of assets that are subject of the agreement. Derivatives are recognized/ derecognized on trade date basis, i.e. the date that the Company commits to purchase or sell the asset.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

The Company's financial assets include trade receivables and other receivables, cash and cash equivalents, derivative financial assets and available-for-sale investments.

After initial measurement, trade and other receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

After initial measurement, available-for-sale securities are recognized at fair value. Changes in their fair value are however not recognized as income, but included directly as part of other comprehensive income. The losses arising from impairment of such investments are recognized in the profit or loss and removed from the available-for-sale reserve.

Available-for-sale securities which are not listed and for which the fair value cannot be reliable established are carried at acquisition cost less any impairment losses, and are tested yearly for impairment.

The Company's financial liabilities include trade payables and other liabilities, loans and borrowings, and derivative financial instruments, if the case.

Liabilities are carried at amortized cost using the effective interest rate method. If goods and services supplied in connection with operating activities have not yet been invoiced but both the dates and amounts of supply are already incurred, the obligations are included under liabilities rather than as provisions.

Derivative instruments are used to hedge risks resulting from changes in interest rates, currency exchange rates and commodity prices and are subsequently measured at fair value.

The fair value of derivative financial instruments reflects the estimated amounts that the Company would pay or receive if the positions were closed at year end date, and thus the unrealized gains and losses on open positions. Quotations from banks or appropriate pricing models have been used to estimate the fair value of financial instruments at year end date.

Unrealized gains and losses are recognized as income or expense, except where the requirements for hedge accounting are met. For hedge accounting to be applied the hedging relationship must be documented and actual hedge effectiveness must be in the range 80%–125%.

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

For cash flow hedges, the effective part of the changes in fair value is recognized directly in other comprehensive income, while the ineffective part is recognized immediately in the income statement. Amounts deferred in other comprehensive income are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in profit or loss.

Derivatives embedded in other financial instruments or host contracts are treated as independent instruments if their risks and characteristics are not closely associated with the host instruments and the host instruments were not recognized at fair value, so that the related unrealized gains and losses are recognized as income or expense.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter in bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognized amounts; and
- There is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

i) Borrowing costs

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

j) Inventories

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is estimated on selling price in the normal course of activity less estimated costs of completion and selling expenses.

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

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

k) Provisions

Provisions are made for all present obligations (legal or constructive) to third parties resulting from a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can reliably be estimated. Provision for individual obligations is based on the best estimate of the amount necessary to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning of oil and gas production assets describes the process of:

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

The Company's core activities regularly give rise to dismantling and removal, asset retirement and soil remediation obligations. These decommissioning and restoration obligations are mainly of material importance in the E&P segment (oil and gas wells, above-ground facilities). They are therefore disclosed as a separate item. At the time the obligation arises, it is provided for in full by recognizing as a liability the present value of future decommissioning and restoration expenses. An equivalent amount is capitalized as part of the carrying value of related property, plant and equipment. The obligation is calculated on the basis of best estimates. The capitalized asset is depreciated using the unit-of-production method for upstream activities and on straight-line basis for downstream assets.

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

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

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

The unwinding of the decommissioning provision is presented as part of the interest expenses in the Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

Changes in the assumptions related to environmental costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment in the Income Statement (for Company obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

The unwinding of the environmental provision is presented as part of the interest expenses in the Income Statement, net of the unwinding of the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

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

Provisions for pensions and severance payments are calculated using the projected-unit-credit method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Actuarial gains/losses are recognized fully through the income statement.

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

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

I) Taxes on income and royalties

Current tax

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, in the countries where the Company operates and generates taxable income.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2 ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Production taxes

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

m) Revenue recognition

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

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

2. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Sale of goods

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

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

Dividend and interest revenue

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

n) Components of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash is considered to be cash on hand and in operating accounts in banks. Cash equivalents represent deposits and highly liquid investments with maturities of less than three months.

o) Interest in joint ventures

IFRS defines joint control as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions regarding the activity require the unanimous consent of the parties sharing the control (the venturers).

The Company has interests in jointly controlled assets.

A jointly controlled asset (JCA) involves joint control and often joint ownership by the Company and other venturers of the assets contributed to, or acquired for the purpose of, the joint venture, without the formation of a corporation, partnership or other entity.

Where the Company's activities are conducted through JCAs, it recognizes its share of the jointly controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture and a share of production. The Company combines its share of the jointly controlled assets and liabilities, income and expenses of the JCA with similar items, line by line, in its financial statements.

p) Investments in subsidiaries and associates

The investments in subsidiaries and associates are accounted for at cost less impairment losses.

q) Comparatives

Certain comparative information related to Statement of Cash Flows for the previous year has been reclassified, since starting with 2013, dividends received, interest received, interest paid and tax on profit paid were presented under sources of funds.

Foreign currency sensitivity analysis included in Note 31 was presented considering the net basis (after valuation allowances) and comparative figures were adjusted accordingly.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

3. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are converted into RON at the exchange rate on the balance sheet date, communicated by the National Bank of Romania:

Exchange rates	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Euro (EUR)	4.4847	4.4287
US dollar (USD)	3.2551	3.3575

All differences resulting from foreign currency amounts settlements are recognized in profit and loss account in the year they occurred. Unrealized foreign exchange gains and losses related to monetary items are recognized in profit and loss account for the year.

The functional currency of the Company, assessed in accordance with IAS 21, is the RON.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

4. INTANGIBLE ASSETS

	Concessions, licences and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2013	1,707.74	795.70	2,503.44
Additions	22.58	119.88	142.46
Transfers to tangible assets (Note 5)	7.68	(29.40)	(21.72)
Disposals	(0.05)	(103.23)	(103.28)
Balance as at December 31, 2013	1,737.95	782.95	2,520.90
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2013	1,232.85	374.26	1,607.11
Amortization	171.19	-	171.19
Impairment	4.05	93.70	97.75
Disposals	(0.05)	(102.97)	(103.02)
Write-ups	-	(6.53)	(6.53)
Balance as at December 31, 2013	1,408.04	358.46	1,766.50
CARRYING AMOUNT			
As at January 1, 2013	474.89	421.44	896.33
As at December 31, 2013	329.91	424.49	754.40

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

5. PROPERTY, PLANT AND EQUIPMENT

COST	Land, land rights and buildings, incl. buildings on third-party property	Oil and gas assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Payments in advance	Total
Balance as at January 1, 2013	2,311.20	24,130.02	6,930.51	348.75	1,149.97	55.47	34,925.92
Additions **)	22.99	3,725.70	352.15	3.34	721.00	77.76	4,902.94
Transfers *)	(14.78)	165.62	583.12	8.84	(666.94)	(54.14)	21.72
Transfers from assets held for sale	69.52	-	-	-	-	-	69.52
Disposals	(27.82)	(415.65)	(62.13)	(14.82)	(83.04)	-	(603.46)
Balance as at December 31, 2013	2,361.11	27,605.69	7,803.65	346.11	1,120.99	79.09	39,316.64
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at January 1, 2013	556.08	7,048.72	2,122.68	188.92	127.68	0.09	10,044.17
Depreciation	106.94	1,560.70	540.80	30.43	-	-	2,238.87
Impairment	5.32	345.27	5.01	2.49	9.37	-	367.46
Transfers *)	(5.39)	-	5.64	(0.24)	(0.01)	-	-
Disposals	(20.29)	(381.24)	(61.80)	(14.66)	(83.27)	-	(561.26)
Write-ups	(0.02)	-	-	-	(4.61)	(0.01)	(4.64)
Balance as at December 31, 2013	642.64	8,573.45	2,612.33	206.94	49.16	0.08	12,084.60
CARRYING AMOUNT							
As at January 1, 2013	1,755.12	17,081.30	4,807.83	159.83	1,022.29	55.38	24,881.75
As at December 31, 2013	1,718.47	19,032.24	5,191.32	139.17	1,071.83	79.01	27,232.04

*) Net amount represents transfers from intangibles. See Note 4.

**) Includes the amount of RON 174.45 million representing additions in finance lease, mainly for the hydrogen plant, and RON 3.63 million representing land deeds.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 281.31 million as at December 31, 2013 (2012: RON 123.44 million).

During 2013, the Company has capitalized in the value of tangible and intangible assets borrowing costs related to current year in amount of RON 0.67 million (2012: RON 81.27 million). The Company ceased to capitalize borrowing costs during 2013, following the finalization of the qualifying projects.

In addition, expenditure capitalized in the course of construction of tangible and intangible assets includes also an amount of RON 668.25 million (2012: RON 487.81 million).

For details on impairments see Note 19.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

6. INVESTMENTS

As at December 31, 2013 the Company had investments in the following companies:

Company Name	Field of activity	Share interest percentage	Cost	Write down allowance	Net book value
<u>Subsidiaries</u>					
OMV Petrom Marketing SRL	Fuel distribution	100.00%	1,389.86	-	1,389.86
ICS Petrom Moldova SA	Fuel distribution	100.00%	103.22	99.58	3.64
Tasbulat Oil Corporation LLP*	Oil exploration and drilling in Kazakhstan	100.00%	215.87	134.15	81.72
OMV Petrom Gas SRL	Gas distribution	99.99%	8.65	-	8.65
Petrom Aviation SA	Airport sales services	99.99%	54.14	24.06	30.08
OMV Petrom Wind Power SRL	Aeolian power production	99.99%	119.93	-	119.93
Petromed Solutions SRL	Medical services	99.99%	3.00	-	3.00
OMV Petrom Ukraine E&P GmbH	Oil & gas exploration and production in Ukraine	100.00%	198.30	-	198.30
OMV Petrom Ukraine Finance Services GmbH	Other services	100.00%	0.06	-	0.06
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.96%	181.91	-	181.91
Petrom Nadlac SRL	Fuel distribution	98.51%	8.23	3.62	4.61
Solar Jiu SRL	Solar power production	99.99%	0.10	-	0.10
Kom Munai LLP	Oil exploration and drilling in Kazakhstan	95.00%	36.82	36.82	-
Petrochemicals Arges SRL	Refining petrochemicals production	95.00%	0.00	0.00	-
Trans Gas LPG Services SRL	LPG transportation related services	80.00%	4.20	3.89	0.31
Petrom Exploration & Production Limited	Exploration and production services	50.00%	0.00	-	0.00
<u>Associates</u>					
Franciza Petrom 2001 SA	Oil products distribution	40.00%	0.20	0.20	-
Brazi Oil & Anghelescu Prod Com SRL	Oil products distribution	37.70%	1.82	1.82	-
Fontegas Peco Mehedinti SA	Fuel distribution	37.40%	3.76	3.76	-
Congaz SA	Natural gas distribution	28.59%	14.16	-	14.16
Asociatia Romana pentru Relatia cu Investitorii	Public relations and public representation	20.00%	0.00	0.00	-
<u>Other investments</u>					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	0.00	-
Telescaun Tihuta SA	Cable transportation	1.68%	0.01	0.01	-
Agribac SA	Animals breeding	0.79%	0.11	0.11	-
Benz Oil SA	Fuel distribution	0.48%	0.22	0.22	-
Credit Bank	Other financial services	0.22%	0.32	0.32	-
Forte Asigurari - Reasigurari SA	Insurance services	0.09%	0.02	0.02	-
Total			2,482.93	308.58	2,174.35

*) Owned through Tasbulat Oil Corporation BVI as holding company.

Note: Nil amounts are shown as -. Where amounts are lower than RON 0.01 million, they are shown as 0.00.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

6. INVESTMENTS (continued)

As at December 31, 2012 the Company had investments in the following companies:

<u>Company Name</u>	<u>Field of activity</u>	<u>Share interest percentage</u>	<u>Cost</u>	<u>Write down allowance</u>	<u>Net book value</u>
<u>Subsidiaries</u>					
OMV Petrom Marketing SRL	Fuel distribution	100.00%	1,389.86	-	1,389.86
ICS Petrom Moldova SA	Fuel distribution	100.00%	103.22	93.08	10.14
Tasbulat Oil Corporation LLP*	Oil exploration and drilling in Kazakhstan	100.00%	215.87	134.51	81.36
OMV Petrom Gas SRL	Gas distribution	99.99%	8.65	-	8.65
Petrom Distributie Gaze SRL	Gas distribution	99.99%	92.30	63.30	29.00
Petrom Aviation SA	Airport sales services	99.99%	54.14	16.71	37.43
OMV Petrom Wind Power SRL	Aeolian power production	99.99%	119.93	-	119.93
Petrom LPG SA	LPG distribution	99.99%	122.31	50.24	72.07
Petromed Solutions SRL	Medical services	99.99%	3.00	-	3.00
OMV Bulgaria OOD	Fuel distribution	99.90%	138.02	-	138.02
OMV Srbija DOO	Fuel distribution	99.90%	5.59	-	5.59
Petrom Nadlac SRL	Fuel distribution	98.51%	8.23	3.62	4.61
Kom Munai LLP	Oil exploration and drilling in Kazakhstan	95.00%	36.82	36.82	-
Petrochemicals Arges SRL	Refining petrochemicals production	95.00%	0.00	0.00	-
Trans Gas LPG Services SRL	LPG transportation related services	80.00%	4.20	3.89	0.31
Petrom Exploration & Production Limited	Exploration and production services	50.00%	0.00	-	0.00
<u>Associates</u>					
Franciza Petrom 2001 SA	Oil products distribution	40.00%	0.20	0.20	-
Brazi Oil & Anghelescu Prod Com SRL	Oil products distribution	37.70%	1.82	1.82	-
Fontegas Peco Mehedinti SA	Fuel distribution	37.40%	3.76	3.76	-
Congaz SA	Natural gas distribution	28.59%	14.16	-	14.16
Asociatia Romana pentru Relatia cu Investitorii	Public relations and public representation	20.00%	0.00	0.00	-
<u>Other investments</u>					
Bursa de Marfuri Oltenia Craiova	Other financial services	2.63%	0.00	0.00	-
Telescaun Tihuta SA	Cable transportation	1.68%	0.01	0.01	-
Agribac SA	Animals breeding	0.79%	0.11	0.11	-
Benz Oil SA	Fuel distribution	0.48%	0.22	0.22	-
Credit Bank	Other financial services	0.22%	0.32	0.32	-
Forte Asigurari - Reasigurari SA	Insurance services	0.09%	0.02	0.02	-
Total			2,322.76	408.63	1,914.13

*) Owned through Tasbulat Oil Corporation BVI as holding company.

Note: Nil amounts are shown as -. Where amounts are lower than RON 0.01 million, they are shown as 0.00.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

7. RECEIVABLES AND OTHER FINANCIAL ASSETS

a) Trade receivables are amounting to RON 1,312.17 million as at December 31, 2013 (2012: RON 1,711.71 million). They are presented net of impairment allowances, which are detailed in 7 c) below.

b) Other financial assets (net of allowances)

	December 31, 2013	Liquidity term	
		less than 1 year	over 1 year
Loans to subsidiaries (Note 26)	1,373.53	55.18	1,318.35
Expenditure recoverable from Romanian State	2,249.88	180.44	2,069.44
Other financial assets	164.70	117.92	46.78
Total	3,788.11	353.54	3,434.57

	December 31, 2012	Liquidity term	
		less than 1 year	over 1 year
Loans to subsidiaries (Note 26)	2,196.15	419.36	1,776.79
Expenditure recoverable from Romanian State	2,288.33	-	2,288.33
Other financial assets	136.59	92.10	44.49
Total	4,621.07	511.46	4,109.61

Expenditure recoverable from Romanian State

As part of the privatization agreement, OMV Petrom S.A. is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the Company from the Romanian State as these pertain to E&P activities prior to its privatization in 2004. Consequently, OMV Petrom S.A. has recorded the estimated decommissioning expenditures against receivable from the Romanian State with a net present value of RON 1,895.73 million as at December 31, 2013 (2012: RON 1,956.22 million). The Company also recorded receivable from the Romanian State related to environmental liabilities in E&P, R&M and Doljchim with net present value of RON 354.15 million (2012: RON 332.11 million) as these were existing prior to privatization of OMV Petrom S.A.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

7. RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

c) Valuation allowances

The movements of impairment allowances for loans to subsidiaries were as follows:

	<u>Year 2013</u>
January 1	556.78
Additions/ (releases)	(74.55)
Disposals	-
Write-ups	-
December 31	482.23

The movements of valuation allowances for trade and other financial assets were as follows:

	<u>Trade receivables</u>	<u>Other financial assets</u>	<u>Total</u>
January 1, 2013	88.83	380.32	469.15
Additions/ (releases)	12.79	34.91	47.70
Used-up	(3.88)	-	(3.88)
December 31, 2013	97.74	415.23	512.97

The gross value of the impaired receivables as at December 31, 2013 is of RON 97.82 million for trade receivables (2012: RON 89.05 million) and of RON 427.68 million for other financial assets (2012: RON 419.90 million).

d) The aging of receivables and other financial assets which were past due but not impaired was as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Trade receivables		
Up to 60 days overdue	5.30	27.87
61 to 120 days overdue	-	-
More than 120 days overdue	-	-
Total	5.30	27.87
Other financial assets		
Up to 60 days overdue	0.24	0.21
61 to 120 days overdue	-	-
More than 120 days overdue	-	-
Total	0.24	0.21

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

8. OTHER ASSETS

The carrying values of other assets as at December 31, 2013 and 2012 were as follows:

	December 31, 2013	Liquidity term	
		less than 1 year	over 1 year
Prepaid expenses and deferred charges	31.02	31.02	-
Rental and lease prepayments	28.44	28.44	-
Other assets	96.20	96.20	-
Total	155.66	155.66	-

	December 31, 2012	Liquidity term	
		less than 1 year	over 1 year
Prepaid expenses and deferred charges	51.18	39.45	11.73
Rental and lease prepayments	24.14	24.14	-
Other assets	49.92	49.92	-
Total	125.24	113.51	11.73

9. INVENTORIES

	December 31, 2013	December 31, 2012
Crude oil	344.77	355.49
Natural gas	57.32	92.93
Other raw materials	228.34	349.82
Work in progress	117.91	135.58
Finished products	777.68	791.08
Advances paid for inventories	0.72	0.41
Total	1,526.74	1,725.31

The cost of materials and goods consumed during 2013 (whether used in production or re-sold) is RON 4,373.44 million (2012: RON 6,271.37 million).

10. ASSETS HELD FOR SALE

	December 31, 2013	December 31, 2012
Land and buildings	1.33	70.85
Plant and equipment	0.13	0.13
Deferred tax asset (see Note 16)	1.64	1.59
Total	3.10	72.57

During 2013, OMV Petrom S.A. and Raiffeisen Evolution subsidiaries concluded a termination agreement of previously signed sale and purchase agreement for lands in Bucharest. Consequently, the assets were transferred back to tangible assets, under land position.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

11. STOCKHOLDERS' EQUITY

Share capital

The share capital of OMV Petrom S.A. consists of 56,644,108,335 fully paid shares as at December 31, 2013 (December 31, 2012: same number) with a total nominal value of RON 5,664.41 million.

As at December 31, 2013 total carrying value of share capital was in amount of RON 5,664.41 million (2012: RON 18,983.37 million). During 2013, the Company used the inflation adjustment to share capital in amount of RON 13,318.96 million (Romania was a hyperinflationary economy until January 2004) to cover the related accumulated loss. This was approved at the General Meeting of the Shareholders held on April 22, 2013.

Reserves

Reserves include retained earnings, other non-distributable reserves (legal and geological quota facility reserves, other reserves from fiscal facilities), cash flow hedging reserve and treasury shares.

Geological quota included in other reserves is amounting to RON 5,062.84 million (2012: same amount). Until December 31, 2006 OMV Petrom S.A. benefited from geological quota facility whereby it could charge up to 35% of the market value of the volume of oil and gas extracted during the year. This facility was recognized directly in reserves. This quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

Legal reserves included in other reserves are amounting to RON 1,132.88 million (2012: RON 1,039.65 million). OMV Petrom S.A. sets its legal reserve in accordance with the provisions of the Romanian Companies Law, which requires that 5% of the annual accounting profit before tax is transferred to "legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company.

Other reserves from fiscal facilities are amounting to RON 208.60 million (2012: same amount).

Cash flow hedging reserve is generated by hedge contracts concluded by the Company, when such contracts are accounted as cash flow hedge. In order to protect the Company's cash flows in 2012, OMV Petrom S.A. entered in September 2011 into oil price swaps, locking in a Brent price of approximately USD 101/bbl for a volume of 30,000 bbl/d. The oil price swaps were accounted as cash flow hedge. During the year 2012 the oil price hedge was realized, resulting in expense of RON 394.08 million. There are no equity related balances for this hedge as of December 31, 2012. In 2013, the Company did not conclude hedge contracts. For more details please refer also to Note 31.

12. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2013	232.86	6,109.75	1,462.91	7,805.52
thereof short-term	-	357.84	834.80	1,192.64
thereof long-term	232.86	5,751.91	628.11	6,612.88
Used	(16.10)	(195.42)	(619.88)	(831.40)
Allocations/ (releases)	80.05	119.33	37.37	236.75
December 31, 2013	296.81	6,033.66	880.40	7,210.87
thereof short-term	-	370.04	286.96	657.00
thereof long-term	296.81	5,663.62	593.44	6,553.87

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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

12. PROVISIONS (continued)

Provisions for pensions and similar obligations

Employees of the Company are entitled to receive severance payments upon termination of employment or on reaching normal retirement age. The entitlements depend on years of service and final compensation levels. Provisions have been set up based on actuarial calculations performed by qualified actuaries using the following parameters: a discount rate of 4.85% (2012: 6.48%), an inflation rate of 2.02% (2012: 3.15%) and an average yearly salary increase of 5.00% (2012: 6.00%).

Provisions for decommissioning and restoration

Changes in provisions for decommissioning and restoration are shown in the table below. In the event of subsequent changes in estimated restoration costs only the effect of the change in present value is recognized in the period concerned. If the value increases, the increase is depreciated over the remaining useful life of the asset, and if it decreases, the decrease is deducted from capitalized asset value. Decommissioning and restoration provision for the year ended December 31, 2013 was calculated using a discount rate of 4.85% (2012: 6.48%) and an inflation rate of 2.02% (2012: 3.15%).

Revisions in estimates for decommissioning and restoration provisions arise from re-assessing each year the cost of workings, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration.

In relation to the Company's decommissioning and restoration obligations, there is a corresponding receivable from the Romanian State, as presented in Note 7.

Details on the Decommissioning and restoration obligations are as follows:

	<u>2013</u>	<u>2012</u>
Balance as at January 1	6,109.75	6,102.32
Revisions in estimates	(247.86)	(257.25)
Unwinding effect	367.19	427.26
Settlements current year	<u>(195.42)</u>	<u>(162.58)</u>
Balance as at December 31	<u>6,033.66</u>	<u>6,109.75</u>

The revisions in estimates impact either the assets subject to decommissioning or the related receivable from State. The unwinding effect is included in the income statement under the interest expenses line (as presented in Note 21) net of the unwinding effect on the related receivable from State. The effect of changes in discount rate or timing of the receivables from State (which are additional to the changes in discount rate or timing of the decommissioning costs) is included in the income statement under interest expenses or interest income.

Other provisions were as follows:

December 31, 2013	<u>Total</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Environmental provision	173.38	52.40	120.98
Other personnel provisions	58.66	58.66	-
Provisions for litigations	445.03	77.45	367.58
Other	<u>203.33</u>	<u>98.45</u>	<u>104.88</u>
Total	<u>880.40</u>	<u>286.96</u>	<u>593.44</u>

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

12. PROVISIONS (continued)

December 31, 2012	Total	less than 1 year	over 1 year
Environmental provision	232.12	117.47	114.65
Other personnel provisions	132.40	132.40	-
Provisions for litigations	492.87	95.26	397.61
Other	605.52	489.67	115.85
Total	1,462.91	834.80	628.11

Environmental provisions

The environmental provisions are estimated by the management based on the list of environment related projects that must be completed by the Company. Petrom experts in environmental issues made their best estimates in order to determine the necessary provisions recorded as at December 31, 2013. The same discount rates and inflation rates as for the decommissioning and restoration provisions are used to compute the environmental provisions.

The Company recorded environmental liabilities against receivable from the Romanian State in E&P, R&M and Doljchim, as these obligations existed prior to privatization.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by the Company further to approved restructuring plan that has been communicated to those affected by it.

Provisions for litigations

The Company monitors all litigations instigated against it and assesses the likelihood of losses and related financial cost using in house lawyers and outside legal advisors. The Company has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash outflows.

Other provisions

As at December 31, 2012 other short-term provisions were related mainly to provisions for taxes to be paid to Romanian State amounting to RON 235.71 million and also provisions for late payment interest following receipt of the preliminary results of the fiscal review of OMV Petrom SA for the years 2009 and 2010 in amount of RON 209.03 million (see Note 21). The decrease of the balance as at December 31, 2013 is related mainly to the usage of provisions following the payments made to fiscal authorities.

Under other long-term provisions it is included the amount of RON 104.88 million (2012: RON 115.85 million) representing estimated costs in relation to Arpechim refinery closure.

Emissions certificates

Directive 2003/87/EC of the European Parliament and of the European Council established a greenhouse gas emissions trading scheme, requiring member states to draw up national plans to allocate emissions certificates. Romania was admitted to the scheme in January 2007, when it joined the EU.

Under this scheme OMV Petrom S.A. is entitled to receive 3,006,806 emission certificates for year 2013 (2012: 4,287,525 emissions certificates were received)

During 2013 the Company had net purchases of 159,507 emissions certificates (2012: no sales/purchases of certificates).

A shortfall in emission certificates would be provided for. Until December 31, 2013, the Company was not short of certificates.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

13. INTEREST-BEARING DEBTS

As at December 31, 2013 and December 31, 2012 OMV Petrom S.A. had the following loans:

Interest-bearing debts short-term

Lender	December 31, 2013	December 31, 2012
European Bank for Reconstruction and Development (a)	95.07	411.20
Black Sea Trade and Development Bank (b)	-	22.14
European Investment Bank (c)	85.42	84.36
Raiffeisen Bank SA (d)	-	0.02
Cash pooling (e)	343.32	964.90
Accrued interest	10.13	17.45
Prepayments in relation with loan amounts drawn	(1.46)	(6.19)
Total interest-bearing debts short-term	532.48	1,493.88

Interest-bearing debts long-term

Lender	December 31, 2013	December 31, 2012
European Bank for Reconstruction and Development (a)	564.18	916.74
Black Sea Trade and Development Bank (b)	-	44.29
European Investment Bank (c)	698.33	773.97
Prepayments in relation with loan amounts drawn	(8.78)	(17.95)
Total interest-bearing debts long-term	1,253.73	1,717.05
Total interest-bearing debts	1,786.21	3,210.93

(a) During 2009, OMV Petrom S.A. concluded two loan agreements with European Bank for Reconstruction and Development:

- (i) An unsecured corporate loan agreement for a maximum amount of EUR 200.00 million for the construction of Brazi Power Plant. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The amount due as at December 31, 2013 amounted to RON 659.25 million (equivalent of EUR 147.00 million) (2012: RON 744.90 million, equivalent of EUR 168.20 million).
- (ii) An unsecured corporate loan agreement for a maximum amount of EUR 275.00 million with the purpose of funding an environmental projects' program in respect of various operations (upstream, midstream and downstream), dated March 31, 2009, with final maturity date November 16, 2015 (for an amount of EUR 150.00 million) and November 15, 2013 (for the remaining EUR 125.00 million). The drawings as of December 31, 2012, in amount of RON 583.04 million (equivalent of EUR 131.65 million) were fully reimbursed during 2013.

(b) For the funding of the environmental program OMV Petrom S.A. concluded also a parallel corporate loan agreement with Black Sea Trade and Development Bank, for a maximum amount of EUR 25.00 million. The agreement was signed on April 27, 2009 and the final maturity date was November 15, 2015. The drawings as of December 31, 2012, in amount of RON 66.43 million (equivalent of EUR 15.00 million) were fully reimbursed during 2013.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

13. INTEREST-BEARING DEBTS (continued)

- (c) For funding the construction of the Brazi Power Plant, OMV Petrom S.A. concluded also an unsecured loan agreement for an amount of EUR 200.00 million with European Investment Bank. The agreement was signed on May 8, 2009 and the final maturity date is June 15, 2023. The outstanding amount as at December 31, 2013 was RON 783.75 million (equivalent of EUR 174.76 million) (2012: RON 858.33 million, equivalent of EUR 193.81 million).
- (d) Credit facility unsecured granted by Raiffeisen Bank S.A. up to EUR 135.60 million consists in two subfacilities: SubFacility A with maturity date prolonged to December 31, 2014 (for an amount of EUR 95.00 million) and SubFacility B with maturity date December 15, 2015 (for an amount of EUR 40.60 million). SubFacility A can be used only in RON and only by OMV Petrom S.A. as overdraft credit line. SubFacility B can be used in EUR, USD or RON by OMV Petrom S.A., OMV Petrom Marketing SRL (up to the limit of EUR 40.60 million) and by SC Petrom Aviation S.A. (up to the maximum limit of EUR 10.00 million) only for the issuance of letters of credit and/or issuance of letters of bank guarantee. The Credit facility was not used as at December 31, 2013.
- (e) Cash pooling agreements with maturity on April 26, 2014, renewable each year, are signed between OMV Petrom S.A. and the following affiliates:
- (i) OMV Petrom Marketing S.R.L. for an amount up to RON 1,500.00 million. The balance as at December 31, 2013 amounts to RON 147.01 million (December 31, 2012: RON 777.33 million).
 - (ii) OMV Petrom Gas S.R.L. for an amount up to RON 350.00 million. The balance as at December 31, 2013 amounts to RON 186.90 million (December 31, 2012: RON 133.92 million).
 - (iii) OMV Petrom Wind Power S.R.L. for an amount up to RON 100.00 million. The balance as at December 31, 2013 amounts to RON 3.93 million (December 31, 2012: RON 6.08 million).
 - (iv) Petromed Solutions S.R.L. for an amount up to RON 15.00 million. The balance as at December 31, 2013 amounts to RON 4.34 million (December 31, 2012: RON 4.84 million).
 - (v) Petrom Aviation S.A. for an amount up to RON 15.00 million. The balance as at December 31, 2013 amounts to RON 1.14 million (December 31, 2012: RON 4.24 million).
 - (vi) As at December 31, 2012 the balance for Petrom LPG S.A. amounts RON 38.49 million. No balance as at December 31, 2013, since the company was disposed during 2013.
 - (vii) As at December 31, 2012 Petrom had a receivable balance in relation to the cash pooling contract with Petrom Distribuție Gaze S.R.L. in amount of RON 4.56 million. There is no balance with Petrom Distribuție Gaze S.R.L. as at December 31, 2013, since the company was disposed during 2013.

The interest rate on these cash pooling agreements is the minimum between National Bank of Romania reference rate and 1 month ROBOR valid on the first working day of each month.

- (f) On November 22, 2011, OMV Petrom SA replaced the Banks Consortiums credit facilities amounting to EUR 875.00 million contracted in 2008 and 2009 with a new unsecured Banks Consortium revolving facility amounting to EUR 930.00 million with 3 years maturity and possibility of extension with another 2 years. The Banks Consortium included Banca Comercială Română S.A (Erste Bank), Barclays Bank PLC, BRD – Groupe Société Générale S.A., Citibank Europe plc, BNP Paribas-Fortis Bank SA/NV Bruxelles Bucharest Branch, ING Bank N.V. Amsterdam Bucharest Branch, J.P. Morgan Europe Limited, OTP Bank Romania SA, Raiffeisen Bank International AG, Raiffeisenlandesbank Niederösterreich Wien AG, Raiffeisenlandesbank Oberösterreich AG, Raiffeisen Bank SA, Bank of Tokyo Mitsubishi UFJ (Holland) N.V., Unicredit Bank Austria AG, Unicredit Țiriac Bank SA. The final maturity date was prolonged until November 22, 2016. There are no drawings from this facility as at December 31, 2013 or December 31, 2012.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

13. INTEREST-BEARING DEBTS (continued)

- (g) A Credit Offer of EUR 500.00 million was signed by OMV Petrom S.A. with OMV AG for funding the general corporate purposes. The agreement was signed on January 15, 2009 and it expired on January 15, 2014, without being prolonged. The facility was not used as at December 31, 2013 and December 31, 2012. The facility was unsecured.

The Company has several credit facilities signed as at December 31, 2013 as follows:

- (h) An uncommitted, unsecured overdraft facility of RON 85.00 million contracted by OMV Petrom S.A. from Banca Comercială Intesa Sanpaolo Romania S.A. for general corporate expenditure, with maturity date April 22, 2014. No drawings were made under the overdraft facility as at December 31, 2013.
- (i) An uncommitted, unsecured facility contracted by OMV Petrom S.A. from ING Bank N.V., that can be used in USD, RON or EUR, up to the maximum amount of EUR 70.00 million (equivalent of RON 313.93 million), for issuance of contingent liabilities and as overdraft for working capital financing. The maturity for contingent liabilities is until November 22, 2017 and for overdraft and the maturity is until November 21, 2014. No drawings under the overdraft were made as at December 31, 2013.
- (j) A uncommitted and unsecured credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. with maximum limit of EUR 120.00 million (equivalent of RON 538.16 million) that can be used in RON, with maturity date April 30, 2014. The facility is designated to finance OMV Petrom's current activity and for issuance of letters of guarantee and letters of credit. No drawings under the facility were made as at December 31, 2013.

OMV Petrom S.A. has signed also facilities with several banks for issuing letters of guarantee, as follows:

- (k) An unsecured facility agreement was signed by OMV Petrom S.A. with Fortis Bank S.A.– Bucharest branch – for up to EUR 30.00 million (equivalent of RON 134.54 million), to be utilized only for issuance of letters of bank guarantee, with maturity date May 31, 2014 with yearly automatic renewal, but not later than May 31, 2017.
- (l) An unsecured Credit facility up to EUR 30.00 million (equivalent of RON 134.54 million) obtained by OMV Petrom S.A. from BRD – Groupe Société Générale S.A., to be utilized only for issuance of letters of bank guarantee. The validity period for the credit facility is April 30, 2014.
- (m) An unsecured Credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 112.12 million), to be utilized only for issuance of letters of bank guarantee, with maturity date January 31, 2014. Credit facility was extended on January 22, 2014 until March 31, 2015.
- (n) An unsecured Credit facility up to USD 3.00 million (equivalent of RON 9.77 million) obtained by OMV Petrom S.A. from RBS Bank Romania S.A., to be utilized for purpose of issuance of letters of bank guarantee, with approval to be extended until October 28, 2014 with the possibility of utilization by tacit consent of the parties.

As at December 31, 2013, OMV Petrom S.A. is in compliance with all financial covenants stipulated by the loan agreements.

Please refer to Note 31 for details regarding interest rates risk of interest-bearing debts.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

14. OTHER FINANCIAL LIABILITIES

	<u>December 31,</u> <u>2013</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Finance lease liabilities	285.38	36.53	248.85
Other financial liabilities	<u>266.45</u>	<u>249.63</u>	<u>16.82</u>
Total	<u>551.83</u>	<u>286.16</u>	<u>265.67</u>
	<u>December 31,</u> <u>2012</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Finance lease liabilities	122.79	16.52	106.27
Other financial liabilities	<u>335.87</u>	<u>313.12</u>	<u>22.75</u>
Total	<u>458.66</u>	<u>329.64</u>	<u>129.02</u>

Finance lease liabilities

The Company acquired through finance lease mainly equipment for production of electricity and pipe yards facilities for tubing reconditioning in E&P and a hydrogen and medium pressure steam production plant for Petrobrazi Refinery in R&M.

For the pipe yards facilities (including 2013 additions) the lease period is 15 years and the total future minimum lease payments amounts to RON 68.60 million as at December 31, 2013 (2012: RON 62.70 million).

For the hydrogen and medium pressure steam production plant (acquired in 2013) the lease period is 15 years and the total future minimum lease payments amounts to RON 175.35 million.

A breakdown of present value of finance lease liabilities is presented below.

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Obligations under finance leases		
Amounts due within 1 year	50.76	23.51
Amounts due after more than 1 year but not later than 5 years	157.16	88.75
Amounts due after 5 years	<u>167.58</u>	<u>50.93</u>
Total lease obligations	<u>375.50</u>	<u>163.19</u>
Less future finance charges on finance leases	(90.12)	(40.40)
Present value of finance lease liabilities	<u>285.38</u>	<u>122.79</u>
<i>Analyzed as follows:</i>		
Maturing within 1 year	36.53	16.52
Maturing after more than 1 year but not later than 5 years	118.64	69.94
Maturing after 5 years	<u>130.21</u>	<u>36.33</u>
Total present value of finance lease liabilities	<u>285.38</u>	<u>122.79</u>

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

14. OTHER FINANCIAL LIABILITIES (continued)

Maturity profile of financial liabilities

The tables below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows:

December 31, 2013	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	568.40	812.33	560.63	1,941.36
Trade payables	2,341.02	-	-	2,341.02
Other financial liabilities	300.39	174.16	167.58	642.13
Total	3,209.81	986.49	728.21	4,924.51

December 31, 2012	< 1 year	1-5 years	> 5 years	Total
Interest-bearing debts	1,547.62	1,148.05	749.27	3,444.94
Trade payables	2,268.52	-	-	2,268.52
Other financial liabilities	336.63	110.63	51.80	499.06
Total	4,152.77	1,258.68	801.07	6,212.52

15. OTHER LIABILITIES

	December 31, 2013	less than 1 year	over 1 year
Deferred income	47.17	47.17	-
Tax liabilities	477.86	477.86	-
Social security	40.16	40.16	-
Other liabilities	35.83	35.83	-
Total	601.02	601.02	-

	December 31, 2012	less than 1 year	over 1 year
Deferred income	33.53	33.53	-
Tax liabilities	373.04	373.04	-
Social security	18.71	18.71	-
Other liabilities	93.12	93.12	-
Total	518.40	518.40	-

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

16. DEFERRED TAX

December 31, 2013	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	178.43	-	178.43	369.03
Financial assets	209.05	-	209.05	4.59
Inventories	33.02	-	33.02	-
Receivables and other assets	63.99	41.58	22.41	-
Untaxed reserves	-	-	-	10.15
Provisions for pensions and severance payments	47.49	-	47.49	-
Other provisions	757.74	-	757.74	-
Liabilities	0.75	-	0.75	-
Total	1,290.47	41.58	1,248.89	383.77
Netting (same tax jurisdiction/country)			(383.77)	(383.77)
Deferred tax, net			865.12	-
Deferred tax for assets held for sale (see Note 10)	1.64	-	1.64	-
Total deferred tax			866.76	-
December 31, 2012	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	157.63	-	157.63	340.12
Financial assets	245.13	-	245.13	2.88
Inventories	42.92	-	42.92	-
Receivables and other assets	68.62	41.43	27.19	-
Untaxed reserves	-	-	-	14.72
Provisions for pensions and severance payments	37.26	-	37.26	-
Other provisions	752.61	-	752.61	-
Liabilities	0.48	-	0.48	-
Total	1,304.65	41.43	1,263.22	357.72
Netting (same tax jurisdiction/country)			(357.72)	(357.72)
Deferred tax, net			905.50	-
Deferred tax for assets held for sale (see Note 10)	1.59	-	1.59	-
Total deferred tax			907.09	-

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

17. OTHER OPERATING INCOME

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Exchange gains from operating activities	50.24	71.85
Gains from the disposal of fixed assets	44.64	36.54
Write-up tangible and intangible assets	11.17	3.27
Other operating income	<u>139.36</u>	<u>32.41</u>
Total	<u>245.41</u>	<u>144.07</u>

The increase in other operating income in 2013 relates mainly to damages received in relation with termination of land sales agreements (please refer also to Note 10) and revenues from insurance indemnities mainly in relation to Power business division.

18. OTHER OPERATING EXPENSES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Exchange losses from operating activities	54.59	84.79
Losses from the disposal of fixed assets	35.41	100.45
Expenses/ (Income) with provisions for litigations	(3.87)	(39.52)
Other operating expenses	<u>488.34</u>	<u>617.64</u>
Total	<u>574.47</u>	<u>763.36</u>

Other operating expenses include an amount of RON 15.72 million (2012: RON 67.22 million) representing restructuring expenses and RON 60.98 million representing reassessment of retirement provision (2012: RON 46.08 million).

In 2012 other operating expenses included also an impairment provision of RON 110.25 million in relation to uncollected receivables.

19. COST INFORMATION

For the years ended December 31, 2013 and December 31, 2012 the income statement includes the following personnel expenses:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Wages and salaries	1,885.87	1,808.33
Other personnel expenses	<u>144.57</u>	<u>229.50</u>
Total personnel expenses	<u>2,030.44</u>	<u>2,037.83</u>

Included in the above personnel expenses is the amount of RON 309.71 million, representing Company's contribution to state pension plan for the year ended December 31, 2013 (2012: RON 293.88 million).

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

19. COST INFORMATION (continued)

Depreciation, amortization and impairment losses of intangible assets and property, plant and equipment consisted of:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Depreciation and amortization	2,410.06	2,114.56
Net impairment tangible and intangible assets	<u>454.04</u>	<u>189.73</u>
Total depreciation, amortization and impairment	<u>2,864.10</u>	<u>2,304.29</u>

Net impairment losses booked during the year ended December 31, 2013 for tangible and intangible assets were related to E&P segment amounting RON 444.02 million (including mainly impairments for replaced assets and for unsuccessful exploration wells), to R&M amounting RON 7.63 million and also to other segments RON 2.39 million.

Net impairment losses booked during the year ended December 31, 2012 for tangible and intangible assets were related to E&P segment amounting RON 145.45 million (including impairments for unsuccessful exploration wells and other projects), to R&M amounting RON 42.54 million and also to other segments RON 1.74 million.

In the income statement the impairment losses are mainly included under exploration expenses in amount of RON 93.71 million (2012: RON 51.37 million), under cost of sales in amount of RON 367.64 million (2012: RON 135.66 million) and under selling expenses in amount of RON 3.86 million (2012: RON 5.76 million). These impairment losses are netted of with write-ups amounting to RON 11.17 million (2012: RON 3.27 million).

Rental expenses included in the income statement for the year ended December 31, 2013 are in amount of RON 161.56 million (2012: RON 170.01 million).

20. INCOME FROM INVESTMENTS

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Dividends from subsidiaries	532.61	283.46
Dividends from associated companies	<u>1.13</u>	<u>3.65</u>
Total	<u>533.74</u>	<u>287.11</u>

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

21. INTEREST INCOME AND INTEREST EXPENSES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Interest income		
Interest income from loans to subsidiaries	84.08	130.70
Interest income from receivables and other	43.69	13.95
Interest income from short term bank deposits	32.87	17.12
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivables	<u>123.58</u>	<u>21.00</u>
Total interest income	<u>284.22</u>	<u>182.77</u>
Interest expenses		
Interest expenses	(108.82)	(353.21)
Unwinding expenses for retirement benefits provision	(15.09)	(13.63)
Unwinding expenses for decommissioning provision net of the unwinding income for related State receivables	(251.94)	(276.20)
Unwinding and discounting for other items, including negative effect of changes in discount rate and timing for State receivables	<u>(7.06)</u>	<u>(214.08)</u>
Total interest expenses	<u>(382.91)</u>	<u>(857.12)</u>
Net interest result	<u>(98.69)</u>	<u>(674.35)</u>

In 2012, included into interest expense line are special charges amounting RON 209.03 million recorded for alleged late payment interest assessed by the fiscal authorities according to the preliminary results of the fiscal review for the years 2009 and 2010.

22. OTHER FINANCIAL INCOME AND EXPENSES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Financial income		
Exchange gains from financing activities	44.45	102.07
Gains from investments and financial assets	<u>76.07</u>	<u>25.57</u>
Total financial income	<u>120.52</u>	<u>127.64</u>
Financial expenses		
Exchange losses from financing activities	(103.03)	(91.33)
Impairment of financial assets	(41.78)	(85.73)
Other financial expenses	<u>(75.57)</u>	<u>(47.69)</u>
Total financial expenses	<u>(220.38)</u>	<u>(224.75)</u>
Other financial income and expenses	<u>(99.86)</u>	<u>(97.11)</u>

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

23. TAXES ON INCOME

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Taxes on income - current year	787.43	840.03
Deferred tax	<u>40.33</u>	<u>(107.17)</u>
Total taxes on income	<u>827.76</u>	<u>732.86</u>

The reconciliation of deferred taxes is as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax asset at January 1	907.09	822.71
Deferred tax asset at December 31	<u>866.76</u>	<u>907.09</u>
Changes in deferred taxes	<u>(40.33)</u>	<u>84.38</u>
Deferred taxes on valuation of hedges charged directly to Other comprehensive income	-	(22.79)
Deferred taxes in the Income statement	<u>(40.33)</u>	<u>107.17</u>

Reconciliation

Profit before taxation	5,667.09	4,583.47
Income tax rate applicable	16.00%	16.00%
Profits tax based on income tax rate	906.73	733.36
Tax credit	(20.60)	(59.19)
Change in valuation allowance	0.15	(10.23)
Tax effect of permanent differences	<u>(58.52)</u>	<u>68.92</u>
Profits tax expense in the Income Statement	<u>827.76</u>	<u>732.86</u>

Permanent differences in 2013 were generated mainly by the non-taxable income.

Permanent differences in 2012 were generated mainly by the non-deductible expenses related to the preliminary results of the fiscal audit.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

24. SEGMENT INFORMATION

OMV Petrom S.A. is organized into three operating business segments: Exploration and Production (E&P), Gas and Power (G&P) and Refining and Marketing (R&M) while management, financing activities and certain service functions are concentrated in the Corporate & Other segment.

Petrom's involvement in the oil and gas industry, by its nature, exposes it to certain risks. These include political stability, economic conditions, changes in legislation or fiscal regimes, as well as other operating risks inherent in the industry such as the high volatility of crude prices and the US dollar. A variety of measures are taken to manage these risks.

Apart from the integration of Petrom's upstream and downstream operations, and the policy of maintaining a balanced portfolio of assets in the E&P segment, the main instruments used are operational in nature. There is a company-wide environmental risk reporting system in operation, designed to identify existing and potential obligations and to enable timely action to be taken. Insurance and taxation are also dealt with on a company-wide basis. Regular surveys are undertaken across Petrom to identify current litigation and pending court and administrative proceedings.

Business decisions of fundamental importance are made by the Executive Board of OMV Petrom S.A. The business segments are independently managed, as each represents a strategic unit with different products and markets.

E&P activities are mainly focused on Romania and Kazakhstan. E&P products are crude oil and natural gas.

Gas business unit has the objective to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization. Business division **Power** extends the gas value chain into a gas-fired power plant.

R&M operates Petrobrazi refinery and produces and delivers gasoline, diesel and other petroleum products to its wholesale customers.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

24. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2013	Exploration & Production	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Total
Intersegment sales	12,107.70	401.33	90.61	435.65	13,035.29	(13,035.29)	-
Sales with third parties	141.74	3,303.16	14,475.20	167.42	18,087.52	-	18,087.52
Total sales	12,249.44	3,704.49	14,565.81	603.07	31,122.81	(13,035.29)	18,087.52
EBIT	5,374.74	12.13	18.19	(97.69)	5,307.37	24.53	5,331.90
Total assets *)	21,025.11	2,655.36	3,569.46	736.51	27,986.44	-	27,986.44
Investments in PPE/IA	4,240.95	15.69	729.32	59.44	5,045.40	-	5,045.40
Depreciation and amortization	1,829.61	147.74	351.50	81.21	2,410.06	-	2,410.06
Impairment losses (net)	444.02	2.10	7.63	0.29	454.04	-	454.04
December 31, 2012	Exploration & Production	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Total
Intersegment sales	11,646.86	412.63	468.55	448.02	12,976.06	(12,976.06)	-
Sales with third parties	112.54	2,583.47	16,276.42	150.08	19,122.51	-	19,122.51
Total sales	11,759.40	2,996.10	16,744.97	598.10	32,098.57	(12,976.06)	19,122.51
EBIT	5,388.07	68.29	(64.53)	(116.44)	5,275.39	(207.57)	5,067.82
Total assets *)	19,096.48	2,789.40	3,202.78	689.42	25,778.08	-	25,778.08
Investments in PPE/IA	3,656.08	278.39	804.73	52.83	4,792.03	-	4,792.03
Depreciation and amortization	1,624.11	69.37	331.23	89.85	2,114.56	-	2,114.56
Impairment losses (net)	145.45	-	42.54	1.74	189.73	-	189.73

The key figure of operating performance for OMV Petrom S.A. is earnings before interest and tax (EBIT).
Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

*) Intangible assets (IA) and property, plant and equipment (PPE)

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

24. SEGMENT INFORMATION (continued)

Information about geographical areas:

For the geographical information, sales are allocated to countries/regions based on the location where the risks and benefits are transferred to the customer. In accordance to this principle, sales of the Company are attributed primarily to Romania. Also, the majority of non-current assets of OMV Petrom S.A. are located in the country of domicile.

25. AVERAGE NUMBER OF EMPLOYEES

The number of employees calculated as average headcount of 12 months number of employees is 19,016 for 2013 and 20,508 for 2012.

26. RELATED PARTIES

The terms of the outstanding balances receivable from/payable to related parties are typically 10 to 60 days. The balances are unsecured and will be settled in cash.

The balances with related parties comprise also loans receivable and payable, included in the Statement of financial position under "Other financial assets" (see also Note 7) and "Interest-bearing debts" respectively (see Note 13 (e)).

Dividends receivable are not included in the below balances and revenues.

Please refer to Note 29 for details on the guarantees given or paid to related parties.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

26. RELATED PARTIES (continued)

During 2013, the Company had the following transactions with related parties (including balances as of December 31, 2013):

	<u>Nature of transaction</u>	<u>Purchases</u>	<u>Balances payable</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	95.56	20.94
OMV Petrom Gas S.R.L.	Acquisition of gas and other	90.83	27.50
Petrom Exploration & Production Limited	Delegation of personnel	77.89	-
OMV Petrom Wind Power SRL	Acquisition of electricity and green certificates	53.36	4.01
Petromed Solutions S.R.L.	Medical services	23.79	2.02
Petrom Aviation S.A.	Airport sales services	18.48	5.49
OMV Bulgaria OOD	Delegation of personnel and other	2.09	0.31
I.C.S. Petrom Moldova S.A.	Various services	0.18	0.02
Petrom Distributie Gaze S.R.L.	Various services	0.14	-
Total OMV Petrom S.A. subsidiaries		362.32	60.29
Other related parties			
OMV Refining & Marketing GmbH	Acquisition of petroleum products	512.53	39.69
OMV Exploration & Production GmbH	Delegation of personnel and other	110.43	45.51
OMV Solutions GmbH	Delegation of personnel and other	52.76	10.31
OMV Aktiengesellschaft	Delegation of personnel and other	35.60	5.51
OMV Trading GmbH	Acquisition of electricity and other	31.74	21.70
OMV Supply & Trading AG	Acquisition of petroleum products	30.76	1.03
OMV International Oil & Gas GmbH	Delegation of personnel and other	21.42	0.25
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of bitumen	3.79	-
OMV Power International GmbH	Delegation of personnel and other	2.95	2.82
OMV Gas & Power GmbH	Delegation of personnel and other	1.27	0.12
Total other related parties		803.25	126.94
Total		1,165.57	187.23

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

26. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	8,770.42	488.97
OMV Petrom Gas S.R.L.	Sales of gas	2,428.53	310.37
OMV Bulgaria OOD	Sales of petroleum products	637.02	69.35
I.C.S. Petrom Moldova S.A.	Sales of petroleum products	107.38	6.95
OMV Srbija DOO	Sales of petroleum products	60.22	3.78
Kom Munai LLP	Delegation of personnel and other	18.36	12.49
Tasbulat Oil Corporation	Delegation of personnel and other	15.02	19.56
Petromed Solutions S.R.L.	Financial, IT and other services	3.21	0.44
Petrom Aviation S.A.	IT and other services	1.64	0.15
OMV Petrom Wind Power SRL	Delegation of personnel and other	1.34	0.18
Petrom Distributie Gaze S.R.L.	Sales of gas and other	4.60	-
Petrom Exploration & Production Limited	Advance payment for delegation of personnel	-	0.16
Total OMV Petrom S.A. subsidiaries		12,047.74	912.40
Other related parties			
OMV Supply & Trading AG	Sales of petroleum products	1,905.88	60.10
OMV Deutschland GmbH	Sales of propylene	313.64	47.03
OMV Solutions GmbH	Financial, IT and other services	59.03	12.42
OMV Exploration & Production GmbH	Delegation of personnel and other	9.27	2.88
OMV Refining & Marketing GmbH	Delegation of personnel and other	7.89	0.67
OMV Aktiengesellschaft	Delegation of personnel and other	3.54	3.12
OMV Trading GmbH	Sales of electricity and other	2.68	0.27
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Sales of petroleum products	0.31	-
OMV Gas & Power GmbH	Advance payment for delegation of personnel	0.06	0.06
OMV (Pakistan) Exploration GmbH	Various services	0.01	-
Solar Jiu SRL	Various services	-	0.01
Total other related parties		2,302.31	126.56
Total		14,350.05	1,038.96

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

26. RELATED PARTIES (continued)

During 2012, the Company had the following transactions with related parties (including balances as of December 31, 2012):

	<u>Nature of transaction</u>	<u>Purchases</u>	<u>Balances payable</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Gas S.R.L.	Acquisition of gas and other	110.83	10.66
OMV Petrom Marketing S.R.L.	Acquisition of petroleum products	95.14	31.23
Petrom Exploration & Production Limited	Delegation of personnel	74.74	-
OMV Petrom Wind Power SRL	Acquisition of electricity and green certificates	60.55	14.91
Petromed Solutions S.R.L.	Medical services	23.19	1.93
Petrom Aviation S.A.	Airport sales services	19.04	2.02
OMV Bulgaria OOD	Delegation of personnel and other	13.83	2.65
I.C.S. Petrom Moldova S.A.	Various services	2.77	0.05
Petrom Distributie Gaze S.R.L.	Various services	0.21	0.02
Petrom LPG S.A.	Various services	0.11	0.21
Total OMV Petrom S.A. subsidiaries		400.41	63.68
Other related parties			
OMV Supply & Trading AG	Acquisition of petroleum products	957.61	0.16
OMV Refining & Marketing GmbH	Acquisition of petroleum products	505.53	38.08
OMV Trading GmbH	Acquisition of electricity and other	87.68	24.68
OMV Exploration & Production GmbH	Delegation of personnel and other	69.35	26.05
OMV Solutions GmbH	Delegation of personnel and other	29.41	12.59
OMV Aktiengesellschaft	Delegation of personnel and other	29.85	7.00
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of bitumen	18.78	-
OMV Power International GmbH	Delegation of personnel and other	4.00	3.95
OMV Gas & Power GmbH	Delegation of personnel and other	1.41	0.01
GAS Connect Austria GmbH	Delegation of personnel and other	0.07	-
OMV Austria Exploration & Production GmbH	Various services	0.07	0.06
Congaz SA	Various services	0.02	-
OMV - International Services Ges.m.b.H.	Financial services	0.01	-
Total other related parties		1,703.79	112.58
Total		2,104.20	176.26

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

26. RELATED PARTIES (continued)

	<u>Nature of transaction</u>	<u>Revenues</u>	<u>Balances receivable</u>
OMV Petrom S.A. subsidiaries			
OMV Petrom Marketing S.R.L.	Sales of petroleum products	9,779.62	759.14
OMV Petrom Gas S.R.L.	Sales of gas	1,996.69	279.33
OMV Bulgaria OOD	Sales of petroleum products	384.67	95.65
Petrom LPG S.A.	Sales of petroleum products	363.08	15.91
I.C.S. Petrom Moldova S.A.	Sales of petroleum products	158.61	39.34
OMV Srbija DOO	Sales of petroleum products	115.25	22.12
Kom Munai LLP	Delegation of personnel and other	8.40	23.75
Tasbulat Oil Corporation	Delegation of personnel and other	5.45	6.33
Petrom Distributie Gaze S.R.L.	Sales of gas and other	5.39	1.80
Petromed Solutions S.R.L.	Financial, IT and other services	3.93	0.91
OMV Petrom Wind Power SRL	Delegation of personnel and other	2.22	1.45
Petrom Aviation S.A.	IT and other services	0.66	0.07
Petrom Exploration & Production Limited	Advance payment for delegation of personnel	-	0.40
Total OMV Petrom S.A. subsidiaries		12,823.97	1,246.20
Other related parties			
OMV Supply & Trading AG	Sales of petroleum products	1,491.69	20.37
OMV Deutschland GmbH	Sales of propylene	232.57	34.83
OMV Solutions GmbH	Financial, IT and other services	44.74	8.64
OMV Trading GmbH	Sales of electricity and other	28.00	4.59
OMV Exploration & Production GmbH	Delegation of personnel and other	6.75	1.62
OMV Aktiengesellschaft	Delegation of personnel and other	3.76	4.24
OMV Refining & Marketing GmbH	Delegation of personnel and other	2.43	0.62
OMV Gas & Power GmbH	Delegation of personnel and other	0.20	0.06
OMV Abu Dhabi E&P GmbH	Various services	0.06	-
Total other related parties		1,810.20	74.97
Total		14,634.17	1,321.17

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

26. RELATED PARTIES (continued)

As at December 31, 2013, the Company had granted intercompany loans to the following subsidiaries:

- a) Kom Munai LLP: one intercompany loan with maximum limit of USD 232.87 million, maturity date is either (i) until the negotiations of the Lender with the minority shareholder of the Borrower are concluded or (ii) until the date the Lender unilaterally terminates the Contract, whichever intervenes first, plus a period of 60 working days and applicable interest rate of 6 months LIBOR + 3.50% p.a.
- b) OMV Bulgaria OOD: one intercompany loan with maximum limit of EUR 82.50 million, maturity December 30, 2018 and applicable interest rate of 6 months EURIBOR + 2.00% p.a.
- c) OMV Srbija DOO: one intercompany loan with maximum limit of EUR 72.50 million, maturity December 30, 2018 and applicable interest rate of 6 months EURIBOR + 2.00% p.a.
- d) ICS Petrom Moldova S.A: one intercompany loan with maximum limit of EUR 12.00 million, maturity August 7, 2014 and interest rate calculated as 6 months EURIBOR + 2.40% p.a.; starting with January 01, 2014 the interest rate has been adjusted to 6 months EURIBOR + 2.00% p.a.
- e) OMV Petrom Wind Power S.R.L.: one intercompany loan with maximum limit of EUR 60.00 million, maturity April 22, 2015 and interest rate calculated as 6 months EURIBOR + 2.40% p.a.; starting with January 01, 2014 the interest rate has been adjusted to 6 months EURIBOR + 2.00% p.a.
- f) OMV Petrom Marketing S.R.L.: one intercompany loan with maximum limit of USD 238.00 million, maturity May 31, 2018 and interest rate calculated as 6 months LIBOR + 3.50% p.a.

The balances receivable in respect to these loans, as at December 31, 2013 and December 31, 2012 are presented below:

	Balance at December 31, 2013	Allowance at December 31, 2013	Net balance at December 31, 2013	Net balance at December 31, 2012
Kom Munai LLP	482.23	482.23	-	785.59
Tasbulat Oil Corporation LLP	-	-	-	495.83
OMV Bulgaria OOD	338.62	-	338.62	365.37
OMV Srbija DOO	85.21	-	85.21	321.08
ICS Petrom Moldova SA	53.87	-	53.87	37.69
OMV Petrom Wind Power SRL	142.61	-	142.61	186.01
Petrom Distribuție Gaze SRL*	-	-	-	4.58
OMV Petrom Marketing S.R.L.	753.22	-	753.22	-
Total	1,855.76	482.23	1,373.53	2,196.15

*) The balance with Petrom Distribuție Gaze S.R.L. is in relation with cash pooling agreements. For details and credit balances about the cash pooling agreements please refer to Note 13 (e).

Key management remuneration

Each member of the Supervisory Board is entitled to receive a net amount of EUR 20,000 per year as remuneration for its service for the year ended December 31, 2013 (2012: same amount).

At December 31, 2013 or 2012 there were no loans or advances granted by the Company to the members of the Supervisory Board.

As at December 31, 2013 or 2012, the Company did not have any obligations regarding pension payments to former members of the Supervisory Board.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

27. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2013 OMV Petrom S.A. has repaid borrowings amounting to RON 825.73 million (2012: RON 1,221.71 million) and lease obligations amounting to RON 11.86 million (2012: RON 7.89 million) and has not drawn any borrowings (2012: drawings of RON 754.59 million).

b) Proceeds from sale of financial assets

The proceeds from sale of financial assets in 2013 are generated mainly by the disposal of two subsidiaries: Petrom LPG S.A. from R&M segment and Petrom Distribuție Gaze S.R.L. from G&P segment. During 2013 OMV Petrom S.A. received the remaining amount related to the sale of Petrom LPG S.A., respectively RON 81.34 million, and an advance of RON 8.88 million for the sale of Petrom Distribuție Gaze S.R.L. Total proceeds include also an adjustment to the price for shares in Aviation Petroleum S.R.L. sold to Petrom Aviation S.A. during 2011.

In 2012 the Company received an advance of RON 9.82 million for the sale of its stake in the subsidiary Petrom LPG S.A. and an amount of RON 0.10 million related to the disposal of Koned LLP.

c) Investments in subsidiaries

During the year 2013 OMV Petrom S.A. acquired two newly incorporated companies: OMV Petrom Ukraine E&P GmbH for RON 198.30 million and OMV Petrom Ukraine Finance Services GmbH for RON 0.06 million and contributed with RON 0.10 million to the share capital of also newly incorporated company Solar Jiu S.R.L., representing 99.99% of its share capital. Other investments in subsidiaries are cash increases to the share capital of the existing subsidiaries OMV Srbija DOO (RON 176.32 million, the equivalent of EUR 40.00 million) and Petrom Distribuție Gaze S.R.L. (RON 23.00 million, before disposal).

During 2012, the Company increased the share capital of Petrom Distribuție Gaze S.R.L. with RON 29.00 million.

d) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by OMV Petrom S.A. for the year ended December 31, 2013 is of RON 416.20 million (2012: RON 374.51 million), out of which the amount of RON 313.13 million is related to operating activities (2012: RON 172.26 million) and the amount of RON 103.07 million represents cash outflows for exploration investing activities (2012: RON 202.25 million).

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Estimates of fair value at year end date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at year end date for similar liabilities with like maturities (level 2 hierarchy).

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value. In accordance with IFRS 13, the individual levels are defined as follows:

Level 1: Using quoted prices in active markets for identical assets or liabilities.

Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

Fair value hierarchy for derivative instruments as at December 31, 2013

Financial instruments on asset side	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	3.27	-	3.27
Total	-	3.27	-	3.27

As at December 31, 2012 there were no balances in relation to derivative financial instruments.

The financial liabilities whose fair values differ from their carrying amounts as at December 31, 2013 (Level 2 – observable inputs), as well as the respective differences are presented in the table below:

Financial liabilities	Fair value	Carrying amount	Difference
Interest-bearing debts	1,410.50	1,442.14	(31.64)
Finance lease liabilities	298.53	285.38	13.15
Total	1,709.03	1,727.52	(18.49)

The fair values of these financial liabilities were determined by discounting future cash flows using interest rates prevailing at the reporting date for similar liabilities with similar maturities.

As at December 31, 2012 no numerical information was disclosed in respect to fair values compared to carrying amounts for financial liabilities based on the insignificance of the difference.

29. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2013 the total commitments engaged by the Company for investments is of RON 1,042.97 million (2012: RON 878.05 million), out of which RON 982.58 million related to property, plant and equipment (2012: RON 847.29 million) and RON 60.39 million for intangible assets (2012: RON 30.76 million).

The Company has additional commitments in relation to joint arrangements. For details please refer to Note 30.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

29. COMMITMENTS AND CONTINGENCIES (continued)

Litigations

The Company provides for litigations that are likely to result in obligations. Management is of the opinion that litigations, to the extent not covered by provisions or insurance, will not materially affect the Company's financial position. The production facilities and properties of the Company are subject to a variety of environmental protection laws and regulations; provisions are made for probable obligations arising from environmental protection measures. The management believes that compliance with current laws and regulations, and future more stringent laws and regulations, will not have a material negative impact on results.

Contingent liabilities

OMV Petrom S.A. has contingent liabilities representing performance guarantees in amount of RON 15.41 million as at December 31, 2013 (December 31, 2012: RON 13.42 million) and several parent company guarantees (PCG's), as follows:

- a PCG issued on behalf of ICS Petrom Moldova S.A. to cover the risk of non-payment of liabilities for fuels' supplier Proton Energy Group, to the limit of RON 22.79 million at December 31, 2013 (equivalent of USD 7.00 million; December 31, 2012: RON 23.50 million, equivalent of USD 7.00 million);
- a PCG issued on behalf of OMV Srbija DOO to cover the risk of non-payment of liabilities for fuels' supplier Nafta Industrija Srbije j.s.c, to the limit of RON 112.12 million at December 31, 2013 (equivalent of EUR 25.00 million; December 31, 2012: nil); and
- a PCG which warrants OMV Petrom Marketing S.R.L. the repayments of utilized amounts under the loans granted by OMV Petrom Marketing S.R.L. to Tasbulat Oil Corporation LLP and Kom Munai LLP, amounting to the RON 1,311.64 million at December 31, 2013 (equivalent of USD 402.95 million; 2012: nil).

30. INTERESTS IN JOINT VENTURES

OMV Petrom S.A. entered into a farm out arrangement with ExxonMobil Exploration and Production Romania Limited ("Exxon") with the purpose to explore and develop the Neptun Deepwater block in Black Sea and has a participating interest of 50%. Starting August 2011, ExxonMobil has been appointed as operator (previously OMV Petrom S.A. was operator). Following the successfully drilling of the first deep water exploration well, an extensive 3D seismic program was executed and finalized for the Neptun perimeter. Next exploration drilling campaign is estimated to start around mid of 2014.

OMV Petrom S.A. entered into a farm out arrangement with Hunt Oil Company of Romania SRL ("Hunt") with the purpose to explore and develop Adjud and Urziceni East onshore blocks and has a participating interest of 50%. Starting October 2013, Hunt has been appointed as operator (previously OMV Petrom S.A. was operator).

In 2013 OMV Petrom S.A. entered into four farm out arrangements with Repsol with the purpose to explore and develop four onshore blocks (Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII) for the area deeper than 2,500-3,000 m and has a participating interest of 51%. OMV Petrom S.A. has been appointed operator.

Joint activities described above are classified as jointly controlled assets according with IAS 31.

OMV Petrom's share of the aggregate capital commitments for these joint arrangements as at December 31, 2013 is amounting RON 541.59 million (2012: RON 504.62 million for Exxon and Hunt joint arrangements), mainly in relation to deep water drilling requirements.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

31. RISK MANAGEMENT

Capital risk management

OMV Petrom S.A. continuously manages its capital adequacy to ensure that it is optimally capitalized in balance with its risks exposure in order to maximize the return to stakeholders. The capital structure of OMV Petrom S.A. consists of shareholders' equity (comprising adjusted share capital, retained earnings and reserves as disclosed in the "Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 13). Capital risk management at OMV Petrom S.A. is part of the value management and it is based on permanent review of the gearing ratio of the Company.

The gearing ratio of OMV Petrom S.A. calculated as $\text{net debt}/(\text{equity}) \times 100$ was 4% as at December 31, 2013 (2012: 12%) showing a decreasing exposure to leverage risk. Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents.

The Company's management reviews the capital structure as well as risk reports regularly. As part of this review, the cost of capital and the risks associated with each class of capital are being considered.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

Financial risk management objectives and policies

The objective of Petrom Risk Management function is to secure positive economic value added for medium term time horizon by managing the Company's cash flow exposure within the risk appetite. High potential single event risks are monitored individually.

Petrom does not enter into or trade financial instruments for speculative purposes. The Risk Management function reports twice per year to Petrom's Executive Board and Supervisory Board's Audit Committee, that monitors all risks and policies implemented to mitigate the Company's risk exposures.

Risk exposures and responses

OMV Petrom S.A.'s Risk Management function actively pursues the identification, analysis, evaluation and treatment of all risks (market and financial, operational and strategic) in order to minimize their effects on Company's cash flow up to an acceptable level agreed as the risk appetite.

The Risk Management function monitors and manages all risks of the Company through and integrated process in line with ISO 31000, by internal risk reports and regular assessments which analyze all risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market and financial risk category plays an important role in the Company's risk profile and is managed with special diligence – market and financial risk includes, among others, foreign exchange risk, interest rate risk, counterparty credit risk, commodity market price risk and liquidity risk.

Response wise, any risk coming near to their significance levels or rapidly developing risks which are sensitive to the risk appetite level are monitored and alerts are issued; for these situations individual and case specific treatment plans are proposed, approved and implemented immediately in order to decrease the exposures up to acceptable levels.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

31. RISK MANAGEMENT (continued)

Commodity Market Price Risk

Commodity Market Risk wise, the Company is naturally exposed to the market risks arising out of the price driven volatility of the cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. The market risk has core strategic importance within the Company's risk profile and the Company's midterm liquidity. The market price risks of the Company's commodities are very closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within the Company's midterm objectives.

Financial instruments are used where appropriate to hedge the main industry risks associated with price volatility such as the highly negative impact of low oil prices on cash flow.

In 2013, the internal risk analysis resulted in no need for hedging the price risk of the oil price, hence no financial instruments were used for commodity hedging.

In 2012, OMV Petrom S.A. entered into oil price swaps, locking in a Brent price of approximately USD 101/bbl for a volume of 30,000 bbl/d during that year, which was around 30% of the 2012 total planned crude oil production. The hedge was realized until end of 2012, resulting in an expense of RON 394.08 million in 2012 income statement of OMV Petrom S.A., offsetting the corresponding gain from the operational results of the Company from selling the hedged production at the prevailing higher prices, thus locking in the price risk for the hedged quantity as per the hedging strategy intended purpose.

Foreign exchange risk management

Because Petrom operates in many currencies, industry specific activities and the corresponding exchange risks are being analyzed. Petrom is mostly exposed to the movement of the US dollar and Euro against Romanian leu. Other currencies have only limited impact on cash flow and EBIT.

Foreign currency sensitivity analysis

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	December 31, 2013	December 31, 2012
Assets		
Thousand USD	300,619	402,236
Thousand EUR	182,845	234,803
Liabilities		
Thousand USD	23,845	54,177
Thousand EUR	438,031	611,048

The following table details the Company's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in total comprehensive income generated by a 10% currency fluctuation and a negative number below indicates a decrease in total comprehensive income with the same value.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

31. RISK MANAGEMENT (continued)

+10% increase in the foreign currencies rates

	<u>Thousand USD Impact (i)</u>		<u>Thousand EUR Impact (ii)</u>	
	2013	2012	2013	2012
Profit/ (Loss)	27,677	34,806	(25,519)	(37,625)
Other comprehensive income	-	-	-	-

-10% decrease in the foreign currencies rates

	<u>Thousand USD Impact (i)</u>		<u>Thousand EUR Impact (ii)</u>	
	2013	2012	2013	2012
Profit/ (Loss)	(27,677)	(34,806)	25,519	37,625
Other comprehensive income	-	-	-	-

(i) This is mainly attributable to the exposure on USD cash, loans receivable, trade receivables and payables and other financial liabilities at the year end.

(ii) This is mainly attributable to the exposure on EUR cash, loans receivable and payable, trade receivables and payables and other financial liabilities at the year end.

The above sensitivity analysis of the inherent foreign exchange risk shows the translation exposure at the end of the year; however the cash flow exposure during the year is continuously monitored and managed by the Company.

Interest rate risk management

To facilitate management of interest rate risk, the Company's liabilities are analyzed in terms of fixed and variable rate borrowings, currencies and maturities.

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates (with all other variables held constant).

Analysis for change in interest rate risk:

Variable rate borrowings:

	<u>Balance as at</u>		<u>Effect of 1% change in interest rate</u>	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Short term borrowings	523.81	1,482.62	5.24	14.83
Long term borrowings	1,262.51	1,735.00	12.63	17.35

In 2013, the internal risk analysis resulted in no need for hedging the interest rate risk, hence no financial instruments were used for interest rate hedging.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

31. RISK MANAGEMENT (continued)

Counterparty Credit Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The main counterparty credit risks are assessed, monitored and managed using predetermined limits for specific countries, banks and business partners. On the basis of creditworthiness, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis. For all counterparties depending on their liquidity class, parts of their credit limits is secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by strict guidelines.

The Company does not have any significant credit risk concentration exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities.

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. To ensure that the Company remains solvent all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Company's financial liabilities is presented in Note 14.

S.C. OMV PETROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in million RON, unless otherwise specified)

32. SUBSEQUENT EVENTS

On January 29, 2014 ExxonMobil Exploration and Production Romania Limited ("ExxonMobil"), OMV Petrom S.A. ("OMV Petrom") and Gas Plus International B.V. ("Gas Plus"), announced that following the Romanian Government Decision no. 43 dated January 22, 2014 and published in the Official Gazette on January 28, 2014, the Transfer Agreement signed in October 2012 between ExxonMobil and OMV Petrom, and Sterling Resources Ltd. and Petro Ventures Europe B.V. for the purchase of hydrocarbon exploration and production rights to the deep water portion of the XV Midia Block became effective. Gas Plus opted to retain its 15% interest in both deep water and shallow water portions of the XV Midia Block.

On November 15, 2013 the Romanian Government issued Emergency Ordinance 102/2013 through which from 1 January 2014 a new tax of 1.5% of the gross book value is imposed on special constructions, the most relevant items for OMV Petrom S.A. being included in E&P segment. The Romanian Parliament is currently discussing potential changes to the Emergency Ordinance before approving it by Law.

These financial statements, presented from page 3 to page 62, comprising Statement of financial position, Income statement, Statement of comprehensive income, Statement of changes in equity, Statement of cash flows and Notes, were approved on March 25, 2014.



Mrs. Mariana Gheorghe
Chief Executive Officer



Mr. Andreas Matje
Chief Financial Officer



Mr. Gabriel Selischi
E.B. Member E&P



Mr. Cristian Secosan
E.B. Member Gas & Power



Mr. Neil Morgan
E.B. Member Refining & Marketing



Mrs. Alina Popa
Director Finance Department



Mr. Eduard Petrescu
Head of Financial Reporting