

S.C. OMV PETROM S.A.
CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ENDORSED BY THE EUROPEAN
UNION, TOGETHER WITH
THE INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated financial statements of OMV Petrom S.A. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of OMV Petrom S.A. and its subsidiaries as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union.

Report on other legal and regulatory requirements

In accordance with the Order of the Minister of Public Finance no. 1286/2012, article no. 30 point c) from Chapter III, we have read the Directors' Report. The Directors' Report is not a part of the consolidated 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 consolidated 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: Anamaria 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. AND SUBSIDIARIES
CONSOLIDATED 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	5	814.73	966.51
Property, plant and equipment	6	30,659.38	28,512.59
Investments in associated companies	7	42.71	39.44
Other financial assets	8	2,143.45	2,357.23
Other assets	9	22.34	34.72
Deferred tax assets	17	877.28	866.16
Non-current assets		34,559.89	32,776.65
Inventories	10	1,996.29	2,250.54
Trade receivables	8	1,429.24	1,968.09
Other financial assets	8	302.67	98.93
Other assets	9	314.67	210.82
Cash and cash equivalents		1,408.24	666.65
Current assets		5,451.11	5,195.03
Assets held for sale	11	35.87	172.94
Total assets		40,046.87	38,144.62
EQUITY AND LIABILITIES			
Share capital	12	5,664.41	18,983.37
Reserves		21,006.10	4,454.90
Stockholders' equity		26,670.51	23,438.27
Non-controlling interests		(28.83)	(32.93)
Equity		26,641.68	23,405.34
Provisions for pensions and similar obligations	13	303.95	241.33
Interest-bearing debts	14	1,253.73	1,717.05
Provisions for decommissioning and restoration obligations	13	5,778.13	5,866.10
Other provisions	13	601.80	644.88
Other financial liabilities	15	289.28	168.29
Deferred tax liabilities	17	11.05	8.24
Non-current liabilities		8,237.94	8,645.89

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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	15	2,958.26	2,880.08
Interest-bearing debts	14	189.04	524.64
Current income tax payable		258.76	261.21
Other provisions and decommissioning	13	651.84	1,210.27
Other financial liabilities	15	318.87	360.85
Other liabilities	16	790.37	764.96
Current liabilities		5,167.14	6,002.01
Liabilities associated with assets held for sale	11	0.11	91.38
Total equity and liabilities		40,046.87	38,144.62

These consolidated 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

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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	26	24,185.22	26,258.13
Direct selling expenses		(646.20)	(696.04)
Cost of sales		(15,484.69)	(17,305.65)
Gross profit		8,054.33	8,256.44
Other operating income	18	298.26	186.58
Selling expenses		(1,090.38)	(1,172.77)
Administrative expenses		(193.56)	(242.12)
Exploration expenses		(423.45)	(327.72)
Other operating expenses	19	(687.34)	(1,038.41)
Earnings before interest and taxes (EBIT)		5,957.86	5,662.00
Income from associated companies	21	4.40	2.18
Interest income	22	205.90	59.86
Interest expenses	22	(360.20)	(825.59)
Other financial income and expenses	23	(109.36)	(72.19)
Net financial result		(259.26)	(835.74)
Profit from ordinary activities		5,698.60	4,826.26
Taxes on income	24	(874.56)	(880.16)
Net income for the year		4,824.04	3,946.10
thereof attributable to stockholders of the parent		4,820.85	3,953.31
thereof attributable to non-controlling interests		3.19	(7.21)
Basic and diluted earnings per share in RON	25	0.0851	0.0698

These consolidated financial statements were approved on March 25, 2014.



Mrs. Mariana Gheorghe
Chief Executive Officer



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E.B. Member Gas & Power



Mr. Neil Morgan
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Mrs. Alina Popa
Director Finance Department



Mr. Eduard Petrescu
Head of Financial Reporting

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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	4,824.04	3,946.10
Exchange differences from translation of foreign operations	(4.36)	3.79
Unrealized gains/ (losses) on hedges	-	(249.69)
Realized (gains) / losses on hedges recycled to income statement	-	401.58
Total of items that may be reclassified ("recycled") subsequently to the income statement	<u>(4.36)</u>	<u>155.68</u>
Income tax relating to components of other comprehensive income	<u>2.73</u>	<u>(25.61)</u>
Other comprehensive income for the year, net of tax	<u>(1.63)</u>	<u>130.07</u>
Total comprehensive income for the year	<u>4,822.41</u>	<u>4,076.17</u>
thereof attributable to stockholders of the parent	4,818.27	4,083.30
thereof attributable to non-controlling interests	4.14	(7.13)

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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>Revenue reserves</u>	<u>Cash flow hedging reserve</u>	<u>Foreign currency translation reserve</u>	<u>Other reserves</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
Balance at January 1, 2013	18,983.37	4,396.08	-	60.91	(2.07)	(0.02)	23,438.27	(32.93)	23,405.34
Net income for the year	-	4,820.85	-	-	-	-	4,820.85	3.19	4,824.04
Other comprehensive income for the year	-	-	-	11.72	(14.30)	-	(2.58)	0.95	(1.63)
Total comprehensive income for the year	-	4,820.85	-	11.72	(14.30)	-	4,818.27	4.14	4,822.41
Dividends distribution	-	(1,586.03)	-	-	-	-	(1,586.03)	(0.03)	(1,586.06)
Adjustments to share capital and revenue reserves	(13,318.96)	13,318.96	-	-	-	-	-	-	-
Change in non-controlling interests and other	-	50.82	-	-	(50.82)	-	-	(0.01)	(0.01)
Balance at December 31, 2013	5,664.41	21,000.68	-	72.63	(67.19)	(0.02)	26,670.51	(28.83)	26,641.68

Note: For details on reserves, see Note 12.

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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>Revenue reserves</u>	<u>Cash flow hedging reserve</u>	<u>Foreign currency translation reserve</u>	<u>Other reserves</u>	<u>Treasury shares</u>	<u>Stockholders' equity</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
Balance at January 1, 2012	18,983.37	2,198.73	(127.59)	52.52	(4.61)	(0.02)	21,102.40	(25.79)	21,076.61
Net income for the year	-	3,953.31	-	-	-	-	3,953.31	(7.21)	3,946.10
Other comprehensive income for the year	-	-	127.59	(4.49)	6.89	-	129.99	0.08	130.07
Total comprehensive income for the year	-	3,953.31	127.59	(4.49)	6.89	-	4,083.30	(7.13)	4,076.17
Dividends distribution	-	(1,755.96)	-	-	-	-	(1,755.96)	(0.01)	(1,755.97)
Change in non-controlling interests and other	-	-	-	12.88	(4.35)	-	8.53	-	8.53
Balance at December 31, 2012	18,983.37	4,396.08	-	60.91	(2.07)	(0.02)	23,438.27	(32.93)	23,405.34

Note: For details on reserves, see Note 12.

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED 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		5,698.60	4,826.26
Adjustments for:			
Interest expenses and other financial expenses	22, 23	138.10	361.39
Interest income	22	(82.32)	(38.86)
Net movement in provisions and allowances for:			
- Inventories		(59.24)	31.33
- Receivables		30.95	207.07
- Pensions and similar liabilities		66.29	50.13
- Decommissioning and restoration obligations		56.54	109.15
- Other provisions for risk and charges		(154.85)	(625.04)
Discounting / Write-off of receivables and other similar items		0.56	263.54
Income from investments in associates	21	(3.27)	1.47
(Gain)/Loss on disposal of subsidiaries	30	0.93	2.08
Cash flow hedge recycled through income statement		-	83.94
(Gain)/Loss on disposals of fixed assets	18, 19	(1.50)	74.38
Depreciation, amortization and impairment expense	5, 6, 20	3,354.72	2,852.22
Other non-cash items		48.25	32.75
Interest received		38.36	40.86
Interest paid		(102.54)	(108.65)
Tax on profit paid		(904.74)	(985.70)
Cash generated from operating activities before working capital movements		8,124.84	7,178.32
(Increase)/Decrease in inventories		145.53	(25.46)
(Increase)/Decrease in receivables and other assets		339.72	(161.54)
Increase/(Decrease) in liabilities		(562.10)	194.12
Net cash generated from operating activities		8,047.99	7,185.44
Cash flow from investment activities			
Purchase of tangible and intangible assets		(4,995.37)	(5,129.65)
Proceeds from sale of fixed assets		47.14	64.42
Acquisition / set-up of subsidiaries	30	(0.10)	-
Proceeds from sale of Petrom Group companies less cash and cash equivalents	30	53.74	9.92
Net cash used for investment activities		(4,894.59)	(5,055.31)
Cash flow from financing activities			
Net repayment of loans	30	(837.34)	(478.15)
Dividends paid		(1,574.31)	(1,741.39)
Net cash used for financial activities		(2,411.65)	(2,219.54)
Effect of foreign exchange rate changes on cash and cash equivalents		(0.16)	2.22
Net increase/(decrease) in cash and cash equivalents		741.59	(87.19)
Cash and cash equivalents at the beginning of the year		666.65	753.84
Cash and cash equivalents at the end of the year		1,408.24	666.65

The notes on pages 10 to 65 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED 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), has activities in Exploration and Production (E&P), Gas and Power (G&P), Refining and Marketing (R&M) segments and it is listed on Bucharest Stock Exchange under "SNP" code.

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

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

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

These consolidated financial statements have been drawn up in compliance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

Romanian listed Companies such as OMV Petrom S.A. are required by Ministry of Finance Order 1121/2006 to submit the consolidated financial statements prepared in accordance with IFRS as endorsed by EU starting 2007.

Basis of preparation

Consolidated financial statements of Petrom Group are presented in RON ("Romanian Leu"), using going concern principles. All values are presented in millions, rounded to the nearest 2 decimals. The consolidated financial statements have been prepared on the historical cost basis, except for certain items that have been measured at fair value as described in Note 31.

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.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED 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 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 Group:

- **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.
- **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. The standard and subsequent amendments have not yet been endorsed by the EU. The Group will evaluate potential effects when the final standard including all phases is issued.
- **IFRS 10 Consolidated Financial Statements**
For companies which apply IFRS as endorsed 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.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED 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 11 Joint Arrangements**

For companies which apply IFRS as endorsed 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 endorsed 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.

- **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.

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NOTES TO THE CONSOLIDATED 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)

- **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 endorsed 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.

- **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 Group. Potential effects in the respective years of initial application are currently being evaluated by management.

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1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

Significant estimates, assumptions and accounting judgments

Preparation of the consolidated 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 Petrom Group'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 6.

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

b) The Group'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 Group at the end of the operating life of some of the facilities and properties.

Estimates of future restoration costs are based on current contracts concluded with suppliers, reports by Petrom Group engineers as well as 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 13).

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 Group 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 Group formally estimates the value in use. The value in use computation 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.

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1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

For the computation of value in use as of December 31, 2013 the relevant pre-tax discount rates (that reflect current market assessments of the time value of money and the risks specific to the asset / cash generating unit) are country specific and vary between:

- 8.6% to 8.9% for E&P (2012: 8.7% to 9.1%)
- 6.2% to 6.4% for G&P (2012: 7.2%)
- 6.6% to 7.3% for R&M (2012: 6.8% to 7.7%)

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 mid-term planning assumptions of the Group, 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 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%.

d) The application of the Group'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 CGUs, in particular with respect to the E&P assets which share significant common infrastructure and are consequently grouped into the same CGU.

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.

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2. CONSOLIDATION

a) Subsidiaries

The consolidated financial statements comprise the financial statements of OMV Petrom S.A. ("OMV Petrom") and its subsidiaries ("Petrom Group") as at December 31, 2013, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2013, as the parent company.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill is recognized as an asset and reviewed for impairment at least annually. All impairments are immediately charged against income, and there are no subsequent reversals of goodwill impairment.

Non-controlling interests represent the equity of a subsidiary not attributable directly or indirectly to Petrom Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent's shareholders' equity.

The number of consolidated companies is as follows:

	Full consolidation	Equity consolidation
As at January 1, 2013	14	1
Included for the first time*	2	-
Deconsolidated during the year**	(2)	-
As at December 31, 2013	14	1
Romanian companies	6	1
Foreign companies	8	-

*) In 2013 OMV Petrom acquired and consolidated for the first time two new companies: OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH.

**) In 2013 OMV Petrom disposed of two consolidated companies: Petrom LPG SA and Petrom Distributie Gaze SRL.

Please refer to Note 29 for further details on group structure.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of Petrom Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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2. CONSOLIDATION (continued)

b) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to Group's net investment in the associate.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of the changes and discloses it in other comprehensive income and/or the statement of changes in equity. The Group recognizes the dividend from an associate when the right to receive a dividend is established, and presents separately (Note 21) the share of the results of operations of the associate corresponding to dividends received.

Where a Group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

c) Interests in joint ventures

IFRS defines joint control as the 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 Group has interests in jointly controlled assets.

A jointly controlled asset (JCA) involves joint control and often joint ownership by the Group 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 Group's activities are conducted through JCAs, the Group 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 Group combines its share of the jointly controlled assets and liabilities, income and expenses of the JCA with similar items, line by line, in its consolidated financial statements.

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3. 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 Group 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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 consolidated income statement, depreciation and amortization as well as impairment losses for filling stations are disclosed as part of selling expenses, those for exploration assets as exploration expenses, and those for other assets are reported as cost of sales or as other operating expenses.

Intangible assets	Useful life (years)
Goodwill	Indefinite
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
G&P Wind power stations	10 - 20
R&M Storage tanks and Refinery facilities	25 - 40
R&M Pipeline systems	20
R&M Filling stations components	5 - 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 Group has separated the areas where it operates in seventeen regions (thirteen regions for the parent and four regions for its Kazakhstan subsidiaries). 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/ 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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 Group, 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 on 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Property, plant and equipment contains assets being used under finance leases. Since the Group 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.

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

Liabilities other than derivatives 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 Group 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%.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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 Group 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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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 Group.

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 consolidated 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

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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 Group'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 OMV Petrom S.A., part of OMV Petrom's decommissioning and environmental cost 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 cost at its present value, using the same discount rate as for the related provisions.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 Group obligation) or to the related receivable from the Romanian State (for the works to be reimbursed by Romanian State).

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 Group 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 / 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 consolidated 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 Group'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 Group operates and generates taxable income.

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3. 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

Sale of goods

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group 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) Comparatives

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

Foreign currency sensitivity analysis included in Note 34 was detailed in order to present separately the impact to other comprehensive income and comparative figures were adjusted accordingly.

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4. FOREIGN CURRENCY TRANSLATION

i) Group companies

The consolidated financial statements are presented in RON, which is OMV Petrom S.A. functional currency. Each entity in Petrom Group determines its own functional currency, and items included in its financial statements are measured using the functional currency. The functional currency of the foreign operations is generally their local currency (which for the majority of the Group's operations is the RON), except for Kazakhstan entities that have USD as functional currency.

Where the functional currency differs from the local currency, monetary assets are valued at closing rates and non-monetary assets at transaction rates.

Where the functional currency differs from Petrom Group presentation currency, financial statements are translated using closing rate method. Differences arising between balance sheet items translated at closing and historical rates are disclosed as a separate balancing item directly in other comprehensive income (foreign exchange differences). Income statement items are translated at average rates for the year. Differences arising from the use of average rather than closing rates are also recorded directly in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to the translation of that particular foreign operation is recognized in the income statement.

The rates applied in translating currencies were as follows:

Exchange rates	Year ended December 31, 2013	Average for the year ended December 31, 2013	Year ended December 31, 2012	Average for the year ended December 31, 2012
US dollar (USD)	3.2551	3.3279	3.3575	3.4704
Euro (EUR)	4.4847	4.4186	4.4287	4.4573
Moldavian Leu (MDL)	0.2496	0.2646	0.2769	0.2863
Serbian Dinar (RSD)	0.0391	0.0391	0.0390	0.0394
Bulgarian Leva (BGN)	2.2930	2.2592	2.2644	2.2790

ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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5. INTANGIBLE ASSETS

	Concessions, licences, and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2013	<u>1,813.76</u>	<u>795.69</u>	<u>2,609.45</u>
Exchange differences	0.13	-	0.13
Changes in consolidated Group	(0.54)	-	(0.54)
Additions	24.92	119.89	144.81
Transfers to tangible assets (Note 6)	7.68	(29.40)	(21.72)
Disposals	(4.85)	(103.23)	(108.08)
Transfers to assets held for sale	<u>(4.39)</u>	<u>-</u>	<u>(4.39)</u>
Balance as at December 31, 2013	<u>1,836.71</u>	<u>782.95</u>	<u>2,619.66</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2013	<u>1,268.69</u>	<u>374.25</u>	<u>1,642.94</u>
Exchange differences	0.07	-	0.07
Changes in consolidated Group	(0.07)	-	(0.07)
Amortization	177.57	-	177.57
Impairment	7.73	93.71	101.44
Disposals	(4.63)	(102.97)	(107.60)
Write-ups	-	(6.53)	(6.53)
Transfers to assets held for sale	<u>(2.89)</u>	<u>-</u>	<u>(2.89)</u>
Balance as at December 31, 2013	<u>1,446.47</u>	<u>358.46</u>	<u>1,804.93</u>
CARRYING AMOUNT			
As at January 1, 2013	<u>545.07</u>	<u>421.44</u>	<u>966.51</u>
As at December 31, 2013	<u>390.24</u>	<u>424.49</u>	<u>814.73</u>

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6. 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	4,596.12	26,788.74	7,947.04	893.54	1,213.23	63.59	41,502.26
Exchange differences	3.00	(85.31)	(1.38)	(7.79)	(1.30)	(0.09)	(92.87)
Changes in consolidated Group	-	-	(59.97)	-	(4.92)	-	(64.89)
Additions**)	45.41	3,952.07	360.00	26.03	785.05	94.96	5,263.52
Transfers*)	12.76	143.88	611.88	43.77	(714.39)	(76.18)	21.72
Transfers to/(from) assets held for sale	15.52	-	(3.22)	(1.48)	-	-	10.82
Disposals	(51.24)	(445.24)	(80.23)	(35.65)	(83.41)	-	(695.77)
Balance as at December 31, 2013	4,621.57	30,354.14	8,774.12	918.42	1,194.26	82.28	45,944.79
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at January 1, 2013	1,221.52	8,522.18	2,602.47	513.99	129.43	0.08	12,989.67
Exchange differences	(0.54)	(48.24)	(0.66)	(5.18)	(0.19)	-	(54.81)
Changes in consolidated Group	-	-	(59.97)	-	(1.18)	-	(61.15)
Depreciation	196.64	1,757.42	611.47	80.80	-	-	2,646.33
Impairment	33.51	345.27	47.56	3.68	11.66	-	441.68
Transfers*)	0.57	(17.55)	7.72	9.27	(0.01)	-	-
Transfers to/(from) assets held for sale	(27.90)	-	(2.41)	(0.81)	-	-	(31.12)
Disposals	(37.69)	(408.96)	(76.61)	(32.89)	(83.27)	-	(639.42)
Write-ups	(1.15)	-	-	(0.01)	(4.61)	-	(5.77)
Balance as at December 31, 2013	1,384.96	10,150.12	3,129.57	568.85	51.83	0.08	15,285.41
CARRYING AMOUNT							
As at January 1, 2013	3,374.60	18,266.56	5,344.57	379.55	1,083.80	63.51	28,512.59
As at December 31, 2013	3,236.61	20,204.02	5,644.55	349.57	1,142.43	82.20	30,659.38

*) Net amount represents transfers from intangibles. See Note 5.

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

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 292.85 million as at December 31, 2013 (2012: RON 135.31 million).

During 2013, the Group has capitalized in the value of tangible and intangible assets of OMV Petrom S.A. borrowing costs related to current year in amount of RON 0.67 million (2012: RON 81.27 million). The Group 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 680.92 million (2012: RON 491.99 million).

For details on impairments see Note 20.

7. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2013 and December 31, 2012 Petrom Group had one associated company: Congaz S.A. Changes in investments in associated companies during the year were as follows:

COST	Associated companies
Balance as at January 1, 2013	39.44
Changes in consolidated Group	-
Share of result of associate (Note 21)	3.27
Disposals	-
Balance as at December 31, 2013	42.71

8. RECEIVABLES AND OTHER FINANCIAL ASSETS

a) **Trade receivables** are amounting to RON 1,429.24 million as at December 2013 (2012: RON 1,968.09 million). They are presented net of impairment allowances, which are detailed in 8 c) below.

b) **Other financial assets** (net of allowances)

	December 31, 2013	Liquidity term	
		less than 1 year	over 1 year
Investments	5.03	-	5.03
Expenditure recoverable from Romanian State	2,249.88	180.44	2,069.44
Other financial assets	191.21	122.23	68.98
Total	2,446.12	302.67	2,143.45

	December 31, 2012	Liquidity term	
		less than 1 year	over 1 year
Investments	4.93	-	4.93
Expenditure recoverable from Romanian State	2,288.33	-	2,288.33
Other financial assets	162.90	98.93	63.97
Total	2,456.16	98.93	2,357.23

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8. RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

Investments

The position "Investments" comprises all the investments in companies that were not consolidated, as the Group does not have control or significant influence over their operations or they were considered immaterial for the Group. These financial assets are accounted for at amortized cost.

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. Such expenditures will be recoverable by OMV Petrom S.A. from the Romanian State as these pertain to E&P activities prior to privatization of OMV Petrom S.A. 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). OMV Petrom S.A. 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.

c) Valuation allowances

Valuation allowances for investments as of December 31, 2013 are amounting to RON 13.96 million (2012: same amount). No changes occurred in 2013.

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

	<u>Trade receivables</u>	<u>Other financial assets</u>	<u>Total</u>
January 1, 2013	177.20	429.63	606.83
Additions/ (releases)	35.82	34.79	70.61
Used	(8.68)	-	(8.68)
Exchange differences and changes in consolidated Group	(4.17)	(0.09)	(4.26)
December 31, 2013	200.17	464.33	664.50

The gross value of the impaired trade receivables as at December 31, 2013 is of RON 220.25 million (2012: RON 194.11 million) and the gross value of the impaired other financial assets amounts to RON 476.81 million (2012: RON 462.91 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	121.25	251.23
61 to 120 days overdue	2.82	9.55
More than 120 days overdue	8.30	7.34
Total	132.37	268.12

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8. RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

Other financial assets	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Up to 60 days overdue	0.24	0.28
61 to 120 days overdue	-	0.04
More than 120 days overdue	<u>0.04</u>	<u>0.04</u>
Total	<u>0.28</u>	<u>0.36</u>

9. OTHER ASSETS

The carrying value of other assets was as follows:

	<u>December 31, 2013</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Prepaid expenses and deferred charges	40.80	40.57	0.23
Rental and lease prepayments	30.97	30.97	-
Other assets	<u>265.24</u>	<u>243.13</u>	<u>22.11</u>
Total	<u>337.01</u>	<u>314.67</u>	<u>22.34</u>

	<u>December 31, 2012</u>	<u>Liquidity term</u>	
		<u>less than 1 year</u>	<u>over 1 year</u>
Prepaid expenses and deferred charges	54.08	42.05	12.03
Rental and lease prepayments	28.67	28.67	-
Other assets	<u>162.79</u>	<u>140.10</u>	<u>22.69</u>
Total	<u>245.54</u>	<u>210.82</u>	<u>34.72</u>

The increase of other receivables as of December 31, 2013 is related mainly to value added tax.

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10. INVENTORIES

	December 31, 2013	December 31, 2012
Crude oil	358.13	365.29
Natural gas	57.32	96.16
Other raw materials	253.72	397.35
Work in progress	117.91	135.58
Finished products	1,198.39	1,247.93
Advances paid for inventories	10.82	8.23
Total	1,996.29	2,250.54

The cost of materials and goods consumed during 2013 (whether used in production or re-sold) is of RON 7,958.41 million (2012: RON 10,460.98 million).

11. ASSETS HELD FOR SALE

	December 31, 2013	December 31, 2012
Land and buildings	27.70	108.96
Plant and equipment	3.01	29.16
Intangible assets	1.78	1.10
Other assets	1.74	32.13
Deferred tax asset (Note 17)	1.64	1.59
Assets held for sale	35.87	172.94
Provisions	0.09	26.54
Liabilities	0.02	61.95
Deferred tax liability (Note 17)	-	2.89
Liabilities associated with assets held for sale	0.11	91.38

In 2013, the main parts of assets and liabilities held for sale relates to the following subsidiaries in R&M segment: OMV Bulgaria OOD and OMV Srbija DOO, for the estimated sale of several filling stations and plots of land.

During 2013, OMV Petrom SA 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.

In 2012 assets and liabilities held for sale consisted mainly of plots of land owned by OMV Petrom S.A. and of assets and liabilities of Petrom LPG SA subsidiary.

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12. 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 (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, OMV Petrom S.A. 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.

Revenue reserves

Revenue reserves include retained earnings, as well as other non-distributable reserves (legal and geological quota facility reserves, other reserves from fiscal facilities).

Geological quota included in revenue 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 revenue 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

Cash flow hedging reserve is generated by hedge contracts concluded by the Group, when such contracts are accounted as cash flow hedge.

In order to protect the Group's cash flow 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 in OMV Petrom S.A. There are no equity related balances for this hedge as of December 31, 2012.

Furthermore, in June 2011, OMV Petrom Gas S.R.L. concluded RON/USD average rate forward contracts for the period November 2011 – February 2012 where OMV Petrom Gas sold USD 29.97 million with monthly pricing and settlement, locking in the RON/USD average rate. This instrument was aimed to protect the cash flows from planned sales of gas to domestic clients during November 2011 – February 2012 against depreciation of USD versus RON, as the sales formula price is linked to USD/RON exchange rate. During the year 2012 also these forwards contracts were realized, resulting in an expense of RON 8.50 million in OMV Petrom GAS S.R.L. There are no related balances as of December 31, 2012.

In 2013, the Group did not conclude hedge contracts.

For more details please refer also to Note 34.

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13. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2013	241.33	6,228.04	1,493.21	7,962.58
thereof short-term	-	361.94	848.33	1,210.27
thereof long-term	241.33	5,866.10	644.88	6,752.31
Exchange differences		(3.15)	(0.01)	(3.16)
Changes in consolidated Group	(3.67)	-	-	(3.67)
Liabilities associated with assets held for sale	-	-	0.01	0.01
Used	(16.98)	(199.36)	(628.39)	(844.73)
Allocations/(releases)	83.27	122.71	18.71	224.69
December 31, 2013	303.95	6,148.24	883.53	7,335.72
thereof short-term	-	370.11	281.73	651.84
thereof long-term	303.95	5,778.13	601.80	6,683.88

Provisions for pensions and similar obligations

Employees of several Group companies 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%) for Romania (RON) and a discount rate of 2.52% (2012: 1.60%) and an inflation rate of 1.92% (2012: 0.51%) for Kazakhstan (USD).

The provision for decommissioning and restoration costs includes mainly obligations in respect of OMV Petrom S.A. amounting to RON 6,033.66 million (2012: RON 6,109.75 million). There is a corresponding receivable from the Romanian State of RON 1,895.73 million (2012: RON 1,956.22 million), which is disclosed under "Other financial assets" item.

Revisions in estimates for decommissioning and restoration provisions arise from the yearly reassessment of the cost of workings, the number of wells and other applicable items, as well as the expected timing of the decommissioning and restoration.

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13. PROVISIONS (continued)

Details on the Decommissioning and restoration obligations are as follows:

	<u>2013</u>	<u>2012</u>
Balance as at January 1	6,228.04	6,222.22
Exchange differences	(3.15)	0.72
Changes in consolidated Group	-	-
Revisions in estimates	(251.12)	(256.04)
Unwinding effect	373.83	433.66
Settlements current year	<u>(199.36)</u>	<u>(172.52)</u>
Balance as at December 31	<u>6,148.24</u>	<u>6,228.04</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 22) 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	65.92	65.92	-
Provisions for litigations	453.75	78.10	375.65
Other	<u>190.48</u>	<u>85.31</u>	<u>105.17</u>
Total	<u>883.53</u>	<u>281.73</u>	<u>601.80</u>

December 31, 2012	<u>Total</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Environmental provision	232.12	117.47	114.65
Other personnel provisions	141.65	141.65	-
Provisions for litigations	507.83	95.39	412.44
Other	<u>611.61</u>	<u>493.82</u>	<u>117.79</u>
Total	<u>1,493.21</u>	<u>848.33</u>	<u>644.88</u>

Environmental provisions

The environmental provisions were estimated by the management based on the list of environment related projects that must be completed by Petrom Group. The Group 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.

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

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13. PROVISIONS (continued)

Other personnel provisions

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

Provisions for litigations

Petrom Group monitors all litigations instigated against it and assesses the likelihood of losses and related financial cost using in house lawyers and outside legal advisors. Petrom Group 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 included under this line 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 S.A. for the years 2009 and 2010 in amount of RON 209.03 million (Note 22). 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 are included the estimated costs amounting to RON 104.88 million (2012: RON 115.85 million) 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.

The only company from the Group included in this allocation is OMV Petrom SA. Under this scheme OMV Petrom S.A. is entitled to 3,006,806 emission certificates for year 2013 (2012: 4,287,525 emissions certificates were received).

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

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

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14. INTEREST-BEARING DEBTS

As at December 31, 2013 and December 31, 2012 Petrom Group had the following loans:

Interest-bearing debts short-term

Borrower	Lender	December 31, 2013	December 31, 2012
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	95.07	411.20
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	-	22.14
OMV Petrom S.A.	European Investment Bank (c)	85.42	84.36
OMV Petrom S.A.	Raiffeisen Bank S.A. (d)	-	0.02
Tasbulat Oil Corp.	Citibank Kazakhstan (e)	0.63	-
	Accrued interest	9.38	13.11
OMV Petrom S.A.	Prepayments in relation with loan amounts drawn	(1.46)	(6.19)
Total interest bearing debts short term		189.04	524.64

Interest-bearing debts long-term

Borrower	Lender	December 31, 2013	December 31, 2012
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	564.18	916.74
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	-	44.29
OMV Petrom S.A.	European Investment Bank (c)	698.33	773.97
OMV Petrom S.A.	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		1,442.77	2,241.69

(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.

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14. 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) A revolving credit facility contracted by Tasbulat LLP from Citibank Kazakhstan, with a maximum limit of USD 3.00 million (equivalent of RON 9.77 million) and maturity date December 31, 2014. The purpose of the facility is for general corporate needs and working capital financing. The drawings made under the revolving facility as at December 31, 2013 amounting USD 0.19 million (equivalent of RON 0.63 million).
- (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.
- (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 Petrom Group's companies have several credit facilities signed as at December 31, 2013 as follows:

- (h) An unsecured facility contracted by OMV Bulgaria OOD from Citibank Sofia, with a maximum limit of BGN 31.27 million (equivalent of RON 71.70 million) and maturity date June 30, 2014. The destination of the facility is financing current operational activities (overdraft) and issuance of letters of bank guarantee without cash collateral. There were no drawings under the overdraft facility as at December 31, 2013.
- (i) An unsecured revolving facility contracted by OMV Srbija from Raiffeisen Bank Belgrade, with a maximum limit of EUR 4.00 million (equivalent of RON 17.94 million) and maturity prolonged until March 2, 2015. The destination of the facility is general corporate purposes financing on a roll-over basis and issuance of letters of bank guarantee without cash collateral. No drawings were made under the revolving facility as at December 31, 2013.
- (j) An unsecured facility contracted by OMV Srbija from Raiffeisen Bank Belgrade, with a maximum limit of RSD 350.00 million (equivalent of RON 13.69 million) and maturity date January 11, 2014. The destination of the facility is general corporate purposes financing on an overdraft basis and issuance of letters of bank guarantee without cash collateral. No drawings were made under the overdraft facility as at December 31, 2013.

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14. INTEREST-BEARING DEBTS (continued)

- (k) 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.
- (l) 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.
- (m) 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.
- (n) A revolving credit facility contracted by Kom Munai LLP from Citibank Kazakhstan, with a maximum limit of USD 7.00 million (equivalent of RON 22.79 million) and maturity date December 31, 2014. The purpose of the facility is for general corporate needs and working capital financing. No drawings were made under the revolving facility as at December 31, 2013.

The Petrom Group's companies have signed also facilities with several banks for issuing letters of guarantee, as follows:

- (o) 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.
- (p) 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.
- (q) 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. The credit facility was extended on January 22, 2014 until March 31, 2015.
- (r) 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.
- (s) A Frame facility contracted by OMV Srbija from Raiffeisen Bank Belgrade, with a maximum limit of EUR 2.00 million (equivalent of RON 8.97 million) and maturity date January 22, 2019. The destination of the facility is the issuance of letters of bank guarantee and opening of letters of credit.

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

Please refer also to Note 34 for details regarding interest rate risks of interest-bearing debt.

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15. OTHER FINANCIAL LIABILITIES

	December 31, 2013	less than 1 year	over 1 year
Finance lease liabilities	297.74	36.62	261.12
Other financial liabilities	310.41	282.25	28.16
Total	608.15	318.87	289.28

	December 31, 2012	less than 1 year	over 1 year
Finance lease liabilities	135.52	16.60	118.92
Other financial liabilities	393.62	344.25	49.37
Total	529.14	360.85	168.29

Finance lease liabilities

Petrom Group acquired through finance lease mainly equipment for production of electricity and pipe yards facilities for tubing reconditioning in OMV Petrom (E&P segment) and a hydrogen and medium pressure steam production plant for Petrobrazi Refinery in OMV Petrom (R&M segment).

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.

	December 31, 2013	December 31, 2012
Obligations under finance leases		
Amounts due within 1 year	51.88	24.65
Amounts due after more than 1 year but not later than 5 years	161.63	93.32
Amounts due after 5 years	202.93	88.05
Total lease obligations	416.44	206.02
Less future finance charges on finance leases	(118.70)	(70.50)
Present value of finance lease liabilities	297.74	135.52
<i>Analyzed as follows:</i>		
Maturing within 1 year	36.62	16.60
Maturing after more than 1 year but not later than 5 years	119.04	70.32
Maturing after 5 years	142.08	48.60
Total present value of finance lease liabilities	297.74	135.52

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15. OTHER FINANCIAL LIABILITIES (continued)

Maturity profile of financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows:

	<u>< 1 year</u>	<u>1-5 years</u>	<u>> 5 years</u>	<u>Total</u>
December 31, 2013				
Interest-bearing debts	224.96	812.33	560.63	1,597.92
Trade payables	2,958.26	-	-	2,958.26
Other financial liabilities	334.14	189.71	203.00	726.85
Total	3,517.36	1,002.04	763.63	5,283.03

	<u>< 1 year</u>	<u>1-5 years</u>	<u>> 5 years</u>	<u>Total</u>
December 31, 2012				
Interest-bearing debts	578.37	1,148.05	749.27	2,475.69
Trade payables	2,880.08	-	-	2,880.08
Other financial liabilities	368.90	141.32	89.42	599.64
Total	3,827.35	1,289.37	838.69	5,955.41

16. OTHER LIABILITIES

	<u>December 31, 2013</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Deferred income	114.08	114.08	-
Tax liabilities	587.11	587.11	-
Social security	42.10	42.10	-
Other liabilities	47.08	47.08	-
Total	790.37	790.37	-

	<u>December 31, 2012</u>	<u>less than 1 year</u>	<u>over 1 year</u>
Deferred income	107.83	107.83	-
Tax liabilities	536.62	536.62	-
Social security	20.56	20.56	-
Other liabilities	99.95	99.95	-
Total	764.96	764.96	-

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17. DEFERRED TAX

December 31, 2013	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	209.37	-	209.37	398.78
Financial assets	85.09	-	85.09	8.96
Inventories	50.92	-	50.92	1.30
Receivables and other assets	76.42	41.99	34.43	0.13
Untaxed reserves	-	-	-	10.15
Provisions for pensions and severance payments	48.63	-	48.63	-
Other provisions	781.80	-	781.80	-
Liabilities	24.10	-	24.10	0.97
Tax loss carried forward	52.18	-	52.18	-
Total	1,328.51	41.99	1,286.52	420.29
Netting (same tax jurisdiction/country)			(409.24)	(409.24)
Deferred tax, net			877.28	11.05
Deferred tax for assets and related liabilities held for sale (Note 11)	1.64	-	1.64	-
Total deferred tax			878.92	11.05

December 31, 2012	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	187.72	-	187.72	392.55
Financial assets	92.90	-	92.90	6.70
Inventories	59.35	-	59.35	1.73
Receivables and other assets	80.98	42.41	38.57	0.16
Untaxed reserves	-	-	-	14.72
Provisions for pensions and severance payments	38.61	-	38.61	-
Other provisions	779.20	-	779.20	-
Liabilities	9.74	-	9.74	0.52
Tax loss carried forward	68.21	-	68.21	-
Total	1,316.71	42.41	1,274.30	416.38
Netting (same tax jurisdiction/country)			(408.14)	(408.14)
Deferred tax, net			866.16	8.24
Deferred tax for assets and related liabilities held for sale (Note 11)	1.59	-	1.59	2.89
Total deferred tax			867.75	11.13

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17. DEFERRED TAX (continued)

As at December 31, 2013, losses carry-forward for tax purposes amounted to RON 278.68 million (2012: RON 389.37 million). Eligibility of losses for carry-forward expires as follows:

	<u>2013</u>	<u>2012</u>
2013	-	15.91
2014	3.26	1.76
2015	10.21	7.62
2016	3.75	13.58
2017	-	102.36
2018 / After 2017	65.46	248.14
After 2018	<u>196.00</u>	<u>-</u>
Total	<u>278.68</u>	<u>389.37</u>

18. OTHER OPERATING INCOME

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Exchange gains from operating activities	64.45	85.98
Gains from the disposal of fixed assets	45.94	39.65
Write-up tangible and intangible assets	12.30	3.42
Other operating income	<u>175.57</u>	<u>57.53</u>
Total	<u>298.26</u>	<u>186.58</u>

The increase in line other operating income in 2013 relates mainly to damages received in relation with termination of land sales agreements (please refer also to Note 11) and revenues from insurance indemnities mainly in relation to Power business division.

19. OTHER OPERATING EXPENSES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Exchange losses from operating activities	74.36	110.35
Losses from the disposal of fixed assets	44.44	114.03
Expenses/ (Income) with provisions for litigations	7.53	(31.36)
Other operating expenses	<u>561.01</u>	<u>845.39</u>
Total	<u>687.34</u>	<u>1,038.41</u>

Other operating expenses include an amount of RON 15.81 million (2012: RON 68.69 million) representing restructuring expenses and RON 63.53 million representing reassessment of retirement provision (2012: RON 49.51 million). In 2012 other operating expenses included also an impairment provision of RON 116.60 million in relation to a legal case in Kazakhstan for uncollected receivables.

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20. COST INFORMATION

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Wages and salaries	2,013.14	1,958.90
Other personnel expenses	<u>167.94</u>	<u>253.18</u>
Total personnel expenses	<u>2,181.08</u>	<u>2,212.08</u>

Included in the above personnel expenses is the amount of RON 328.20 million, representing Group's contribution to state pension plan for the year ended December 31, 2013 (2012: RON 309.09 million).

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	2,823.90	2,608.15
Net impairment tangible and intangible assets	<u>530.82</u>	<u>244.07</u>
Total depreciation, amortization and impairment	<u>3,354.72</u>	<u>2,852.22</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 in Romania), to G&P amounting RON 43.69 million (mainly related to Petrom Distributie Gaze SRL assets), to R&M amounting RON 42.82 million (mainly related to impairment of marketing assets) and also to Corporate & Other segment RON 0.29 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 157.54 million (including impairments for unsuccessful exploration wells in Romania and other projects), to R&M amounting RON 84.79 million (mainly related to impairment of marketing assets in Petrom Moldova) and also other segments RON 1.74 million.

In the consolidated income statement the impairment losses are mainly included under exploration expenses of RON 93.72 million (2012: RON 51.37 million), cost of sales amounting RON 367.64 million (2012: RON 138.02 million) and selling expenses of RON 81.76 million (2012: RON 48.15 million). These impairment losses are netted of with write-ups amounting to RON 12.30 (2012: RON 3.42 million).

Rental expenses included in current period consolidated income statement are RON 225.72 million (2012: RON 234.31 million).

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21. INCOME FROM ASSOCIATED COMPANIES

	December 31, 2013	December 31, 2012
Share of the result of associated companies	3.27	(1.47)
Dividends from associated companies	1.13	3.65
Total income from associated companies	4.40	2.18

22. INTEREST INCOME AND INTEREST EXPENSES

	December 31, 2013	December 31, 2012
Interest income		
Interest income from receivables and other	48.45	20.05
Interest income from short term bank deposits	33.87	18.81
Unwinding income for other financial assets and positive effect of changes in discount rate and timing for State receivables	123.58	21.00
Total interest income	205.90	59.86
Interest expenses		
Interest expenses	(78.97)	(314.68)
Unwinding expenses for retirement benefits provision	(15.59)	(14.22)
Unwinding expenses for decommissioning provision, net of the unwinding income for related State receivables	(258.58)	(282.61)
Unwinding and discounting for other items, including negative effect of changes in discount rate and timing for State receivables	(7.06)	(214.08)
Total interest expenses	(360.20)	(825.59)
Net interest result	(154.30)	(765.73)

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 in OMV Petrom S.A.

23. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2013	December 31, 2012
Financial income		
Exchange gains from financing activities	72.60	99.67
Gains from investments and financial assets	1.86	1.45
Total financial income	74.46	101.12
Financial expense		
Exchange losses from financing activities	(124.69)	(126.60)
Other financial expenses	(59.13)	(46.71)
Total financial expense	(183.82)	(173.31)
Other financial income and expenses	(109.36)	(72.19)

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24. TAXES ON INCOME

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Taxes on income - current year	896.95	963.76
Deferred tax	<u>(22.39)</u>	<u>(83.60)</u>
Total taxes on income	<u>874.56</u>	<u>880.16</u>

The reconciliation of deferred taxes is as follows:

	<u>2013</u>	<u>2012</u>
Deferred taxes January 1	856.62	795.51
Deferred taxes December 31	<u>867.87</u>	<u>856.62</u>
Changes in deferred taxes	<u>11.25</u>	<u>61.11</u>
Deferred taxes on valuation of hedges charged directly to other comprehensive income	-	(24.30)
Changes in consolidated Group, exchange differences and similar items	<u>(11.14)</u>	<u>1.81</u>
Deferred taxes in the Income Statement	<u>22.39</u>	<u>83.60</u>

Reconciliation

Profit before taxation	5,698.60	4,826.26
Income tax rate applicable for Parent company	16.00%	16.00%
Profits tax based on income tax rate of the Parent	911.78	772.20
Effect of differing foreign tax rates	<u>(31.06)</u>	<u>(15.96)</u>
Profits tax based on applicable rates	880.72	756.24
Tax effect of permanent differences	<u>(6.16)</u>	<u>123.92</u>
Profits tax expense in the Income Statement	<u>874.56</u>	<u>880.16</u>

Permanent differences in 2013 were generated mainly by the positive impact from tax reassessments in Kazakhstan companies.

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

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25. EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Net profit attributable to own shareholders	4,820.85	3,953.31
Weighted average number of shares	<u>56,643,903,559</u>	<u>56,643,903,559</u>
Earnings per share in RON	<u>0.0851</u>	<u>0.0698</u>

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

At the Annual General Meeting held on April 22, 2013, the shareholders of OMV Petrom S.A. approved the distribution of dividends for the financial year 2012 for the amount of RON 1,586.03 million, resulting in a dividend per share of 0.028 RON.

26. SEGMENT INFORMATION

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

Petrom Group'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 used to manage these risks.

Apart from the integration of Petrom Group'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 Group-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 Group-wide basis. Regular surveys are undertaken across Petrom Group 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** mainly extends the gas value chain into a gas-fired power plant.

R&M produces and delivers gasoline, diesel and other petroleum products to its customers. **Refining** division operates one Romanian refinery, Petrobrazi. **Marketing** division delivers products to both Retail and Wholesale customers and operates in Romania, Bulgaria, Serbia and Republic of Moldova. OMV Petrom S.A. is the main player on the Romanian fuels market.

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26. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2013	Exploration & Production	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	12,112.56	435.56	180.65	553.25	13,282.02	(13,282.02)	-
Sales with third parties	1,107.85	3,879.91	19,127.63	69.83	24,185.22	-	24,185.22
Total sales	13,220.41	4,315.47	19,308.28	623.08	37,467.24	(13,282.02)	24,185.22
EBIT	5,528.61	112.43	385.53	(97.25)	5,929.32	28.54	5,957.86
Total assets*	22,296.95	2,948.54	5,491.25	737.37	31,474.11	-	31,474.11
Investments in PPE/IA	4,502.71	18.32	827.84	59.46	5,408.33	-	5,408.33
Depreciation and amortization	2,045.27	167.96	529.31	81.36	2,823.90	-	2,823.90
Impairment losses (net)	444.02	43.69	42.82	0.29	530.82	-	530.82

Information about geographical areas:

December 31, 2013	Romania	Rest of CEE	Rest of world	Consolidation	Consolidated total
Sales with third parties**	18,963.51	4,221.53	1,000.18	-	24,185.22
Total assets*	29,362.84	839.41	1,271.86	-	31,474.11
Investments in PPE/IA	5,123.17	23.65	261.51	-	5,408.33

Sales with third parties made in Rest of CEE (Central Eastern Europe) include sales made in Bulgaria amounting to RON 2,969.56 million in 2013.

The key figure of operating performance for Petrom Group is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Intra-Group sales and cost allocations by the parent company are determined in accordance with internal group policies. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

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

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

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26. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2012	Exploration & Production	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	12,071.98	446.63	162.36	561.49	13,242.46	(13,242.46)	-
Sales with third parties	919.94	3,696.19	21,587.19	54.81	26,258.13	-	26,258.13
Total sales	12,991.92	4,142.82	21,749.55	616.30	39,500.59	(13,242.46)	26,258.13
EBIT	5,466.57	359.80	137.52	(116.52)	5,847.37	(185.37)	5,662.00
Total assets*	20,364.83	3,146.14	5,277.72	690.41	29,479.10	-	29,479.10
Investments in PPE/IA	3,829.92	288.93	903.26	52.90	5,075.01	-	5,075.01
Depreciation and amortization	1,897.06	90.36	530.72	90.01	2,608.15	-	2,608.15
Impairment losses (net)	157.54	-	84.79	1.74	244.07	-	244.07

Information about geographical areas:

December 31, 2012	Romania	Rest of CEE	Rest of world	Consolidation	Consolidated Total
Sales with third parties**	20,534.35	4,485.17	1,238.61	-	26,258.13
Total assets*	27,266.47	944.29	1,268.34	-	29,479.10
Investments in PPE/IA	4,866.43	33.28	175.30	-	5,075.01

Sales with third parties made in Rest of CEE include sales made in Bulgaria amounting to RON 2,937.71 million in 2012.

The key figure of operating performance for Petrom Group is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Intra-Group sales and cost allocations by the parent company are determined in accordance with internal group policies. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

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

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

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27. AVERAGE NUMBER OF EMPLOYEES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total Petrom Group	20,393	22,255
thereof:		
OMV Petrom S.A.	19,016	20,508
Subsidiaries	1,377	1,747

Note: The number of employees was calculated as average headcount of 12 months number of employees.

28. 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. There are no significant provisions for doubtful debts relating to these balances and no significant expense recognized in the consolidated income statement in respect of bad or doubtful debts. There are no guarantees given or paid to related parties as at December 31, 2013 and December 31, 2012. Dividends receivable are not included in the below balances and revenues.

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

	Nature of transaction	<u>Purchases</u>	<u>Balances payable</u>
OMV Petrom S.A. - mother company			
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 OMV Petrom S.A.		<u>803.25</u>	<u>126.94</u>

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28. RELATED PARTIES (continued)

	Nature of transaction	Purchases	Balances payable
Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Acquisition of petroleum products	225.40	31.64
OMV Exploration & Production GmbH	Delegation of personnel and other	13.47	8.46
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	12.51	0.60
OMV - International Services Ges.m.b.H.	Financial services	2.84	31.73
Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.17	0.05
OMV Aktiengesellschaft	Delegation of personnel and other	0.18	0.12
OMV Power International GmbH	Delegation of personnel and other	0.13	0.13
OMV Solutions GmbH	Delegation of personnel and other	0.03	-
Petrom Nadlac SRL	Various services	-	0.27
OMV Gas & Power GmbH	Various services	-	0.06
Total subsidiaries		255.73	73.06
Total Petrom Group		1,058.98	200.00

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - mother company			
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	Delegation of personnel and other	0.06	0.06
OMV (Pakistan) Exploration Gesellschaft m.b.H	Various services	0.01	-
SC Solar Jiu SRL	Various services	-	0.01
Total OMV Petrom S.A.		2,302.31	126.56

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28. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Delegation of personnel and other	5.72	0.70
OMV - International Services Ges.m.b.H	Other services	3.07	14.54
OMV Aktiengesellschaft	Delegation of personnel and other	2.20	0.07
OMV Exploration & Production GmbH	Delegation of personnel and other	0.05	0.05
Trans Gas LPG Services SRL	Various services	0.01	-
Total subsidiaries		11.05	15.36
Total Petrom Group		2,313.36	141.91

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

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - mother company			
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 Aktiengesellschaft	Delegation of personnel and other	29.85	7.00
OMV Solutions GmbH	Delegation of personnel and other	29.41	12.59
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	-
Congaz SA	Various services	0.02	-
OMV Austria Exploration & Production GmbH	Various services	0.07	0.06
OMV - International Services Ges.m.b.H.	Financial services	0.01	-
Total OMV Petrom S.A.		1,703.79	112.58

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28. RELATED PARTIES (continued)

	Nature of transaction	Purchases	Balances payable
Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Acquisition of petroleum products	340.42	34.25
EconGas Hungária			
Földgázkereskedelmi Kft.	Acquisition of gas	183.25	-
OMV - International Services Ges.m.b.H.	Financial services	2.13	24.40
OMV Exploration & Production GmbH	Delegation of personnel	10.11	4.48
OMV Solutions GmbH	Delegation of personnel and other	11.14	0.44
Petrol Ofisi A.Ş.	Acquisition of petroleum products	7.42	1.42
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	18.44	1.00
EconGas GmbH	Acquisition of gas	-	1.34
Congaz SA	Various services	1.30	0.11
Trans Gas LPG Services SRL	Various services	0.87	0.09
Petrom Nadlac SRL	Various services	0.52	0.09
OMV Aktiengesellschaft	Delegation of personnel and other	0.83	0.02
OMV Power International GmbH	Delegation of personnel and other	0.28	0.35
OMV Slovenija trgovina z nafto in naftnimi derivati, d.o.o.	Acquisition of petroleum products	2.14	-
Diramic Insurance Limited	Various services	0.95	-
Total subsidiaries		579.80	67.99
Total Petrom Group		2,283.59	180.57

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - mother company			
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 OMV Petrom S.A.		1,810.20	74.97

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28. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
Petrom Group subsidiaries			
OMV - International Services Ges.m.b.H.	Other services	2.83	13.44
OMV Refining & Marketing GmbH	Delegation of personnel and other	4.49	0.70
OMV Aktiengesellschaft	Delegation of personnel and other	4.28	0.42
Petrol Ofisi A.Ş.	Sales of petroleum products	0.32	0.03
Linzer Agrottrade Romania	Sales of chemicals products	0.19	-
Trans Gas LPG Services SRL	Various services	0.03	-
Total subsidiaries		12.14	14.59
Total Petrom Group		1,822.34	89.56

Ultimate parent

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft, being the ultimate parent of the Group and it is based in Austria. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 24.9%).

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 and 2012 there are no loans or advances granted by the Group to the members of the Supervisory Board.

As at December 31, 2013 and 2012, the Group does not have any obligations regarding pension payments to former members of the Supervisory Board.

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29. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2013

Company Name	Share interest percentage	Consolidation treatment*	Activity	Country of incorporation
Subsidiaries (>50%)				
Tasbulat Oil Corporation LLP	100.00%	FC	Oil exploration and drilling in Kazakhstan	Kazakhstan
ICS Petrom Moldova S.A.	100.00%	FC	Fuel distribution	Moldova
OMV Petrom Marketing S.R.L.	100.00%	FC	Fuel distribution	Romania
Tasbulat Oil Corporation BVI	100.00%	NC	Holding company	British Virgin Islands
OMV Petrom Wind Power SRL	99.99%	FC	Eolian power production	Romania
OMV Petrom Gas S.R.L.	99.99%	FC	Gas distribution	Romania
Petromed Solutions S.R.L.	99.99%	FC	Medical services	Romania
Petrom Aviation S.A.	99.99%	FC	Airport sales services	Romania
OMV Bulgaria OOD	99.90%	FC	Fuel distribution	Bulgaria
OMV Srbija DOO	99.96%	FC	Fuel distribution	Serbia
Petrom Nadlac S.R.L.	98.51%	NC	Fuel distribution	Romania
Kom Munai LLP	95.00%	FC	Oil exploration and drilling in Kazakhstan	Kazakhstan
Petrochemicals Arges S.R.L.	95.00%	NC	Refining petrochemicals production	Romania
Trans Gas LPG Services S.R.L.	80.00%	NC	LPG transportation related services	Romania
Petrom Exploration & Production Limited	50.00%	FC	Exploration and production services	Isle of Man
OMV Petrom Ukraine E&P Gmbh	100.00%	FC	Oil and gas exploration and production in Ukraine	Austria
OMV Petrom Ukraine Finance Services Gmbh	100.00%	FC	Other services	Austria
Solar Jiu S.R.L.	99.99%	NC	Solar power production	Romania
Associated companies (20-50%)				
Franciza Petrom 2001 S.A.	40.00%	NAE	Oil products distribution	Romania
Brazi Oil & Anghelescu Prod Com S.R.L.	37.70%	NAE	Oil products distribution	Romania
Fontegas Peco Mehedinti S.A.	37.40%	NAE	Fuel distribution	Romania
Congaz S.A.	28.59%	EM	Natural gas distribution	Romania
Asociatia romana pentru relatia cu investitorii	20.00%	NAE	Public relations and public representation	Romania

*) Consolidation treatment:

FC Full consolidation

EM Accounted for at equity (associated company)

NC Not – consolidated subsidiary (companies of relative insignificance individually and collectively to the consolidated financial statements)

NAE Other investment recognized at cost (associated companies of relatively little importance to the assets and earnings of the consolidated financial statements).

The subsidiaries which are not consolidated have very low volumes of business; the total sales, net income/losses and equity of such companies represent less than 1% of the consolidated totals.

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30. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2013 Petrom Group has repaid borrowings amounting to RON 825.73 million (2012: RON 1,221.71 million) and finance lease obligations amounting to RON 12.24 million (2012: RON 11.03 million) and has drawn borrowings amounting to RON 0.63 million (2012: RON 754.59 million).

b) Acquisition of subsidiaries

During 2013 Petrom Group acquired from OMV Exploration & Production GmbH a percentage of 100% in two new companies: OMV Petrom Ukraine E&P GmbH and OMV Petrom Ukraine Finance Services GmbH. OMV Petrom paid a total amount of RON 198.36 million (equivalent of EUR 44.52 million), which represents exactly the cash owned by these companies at the moment of acquisition. Therefore, at Petrom Group level there is no net cash out impact from these acquisitions.

During 2013 OMV Petrom paid in cash an amount of RON 0.10 million for the share capital of the new created not consolidated subsidiary Solar Jiu S.R.L..

During 2012 Petrom Group did not acquire any company.

c) Disposal of subsidiaries

During 2013, Petrom Group disposed of two subsidiaries: Petrom LPG S.A. from R&M segment and Petrom Distributie Gaze S.R.L. from G&P segment.

During 2012 Petrom Group disposed of Korned LLP from E&P segment.

Net assets of disposed subsidiaries at the date of disposal were as follows:

	December 31, 2013	December 31, 2012
Intangible assets	1.27	-
Property, plant and equipment	69.11	-
Inventories	21.99	-
Trade receivables	42.85	-
Other financial assets short term	39.56	-
Other assets short term	1.35	0.21
Cash and cash equivalents	36.48	-
Deferred tax asset	12.25	-
Provisions for pensions and similar obligations long term	(7.70)	(1.24)
Other financial liabilities long term	(49.07)	-
Trade payables	(34.31)	(0.26)
Deferred tax liabilities	(3.46)	-
Current income tax payable	(0.09)	-
Other provisions and decommissioning short term	(1.90)	-
Other liabilities short term	(11.38)	(4.24)
Net assets disposed of	116.95	(5.53)

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30. CASH FLOW STATEMENT INFORMATION (continued)

Gain / (Loss) on disposal of subsidiaries:

	December 31, 2013	December 31, 2012
Proceeds on disposal of subsidiaries	116.02	0.10
Net assets disposed of	(116.95)	5.53
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity on loss of control of subsidiaries	-	(12.88)
Exchange differences related to net investment in a foreign subsidiary, recycled from equity on disposal of subsidiary	-	5.17
Loss on disposal of subsidiaries	(0.93)	(2.08)

Net cash flow on disposal of subsidiaries:

	December 31, 2013	December 31, 2012
Net consideration received in cash and cash equivalents	100.04	0.10
Less cash and cash equivalents balances disposed of	(36.48)	-
Net cash inflow on disposal of subsidiaries	63.56	0.10
Less cash advance received in 2012 for Petrom LPG S.A.	(9.82)	-
Net cash inflow on disposal of subsidiaries during 2013	53.74	0.10

In 2012, in addition to the consideration of RON 0.10 million related to the disposal of Korned LLP, the Group received an advance of RON 9.82 million for Petrom LPG S.A. from Crimbo Gas International, therefore the total cash inflow on disposal of subsidiaries during 2012 amounted to RON 9.92 million.

d) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by Petrom Group 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).

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31. 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.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivatives designated and effective as hedging instruments	-	-	-	-
Other derivatives	-	3.26	-	3.26
Total	-	3.26	-	3.26

As at December 31, 2012 there are 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	<u>Fair value</u>	<u>Carrying amount</u>	<u>Difference</u>
Interest-bearing debts	1,411.13	1,442.77	(31.64)
Finance lease liabilities	310.89	297.74	13.15
Total	1,722.02	1,740.51	(18.49)

The fair value of these financial liabilities was determined by discounting future cash flows using interest rates prevailing at 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.

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32. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2013 the total commitments engaged by Petrom Group for investments is of RON 1,088.31 million (2012: RON 935.34 million), out of which RON 1,027.92 million related to property, plant and equipment (2012: RON 904.58 million) and RON 60.39 million for intangible assets (2012: RON 30.76 million). The Group has additional commitments in relation to joint arrangements. For details please refer to Note 33.

Litigations

Petrom Group 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 Petrom Group's financial position. The production facilities and properties of all Group companies are subject to a variety of environmental protection laws and regulations in the countries where they operate; 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 consolidated results.

Contingent liabilities

Petrom Group has contingent liabilities representing performance guarantees in amount of RON 28.70 million as at December 31, 2013 (2012: RON 25.64 million).

33. 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.

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34. RISK MANAGEMENT

Capital risk management

Petrom Group continuously manages its capital adequacy to ensure that its entities will be optimally capitalized in balance with their risks exposure in order to maximize the return to stakeholders. The capital structure of Petrom Group consists of equity attributable to equity holders of the parent (comprising share capital, reserves and revenue reserves as disclosed in the "Consolidated Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 14). Capital risk management at Petrom Group is part of the value management and it is based on permanent review of the gearing ratio of the group.

The gearing ratio of Petrom Group calculated as net debt/ (equity)*100 was 1% as at December 31, 2013 (December 31, 2012: 7%) showing a decreasing exposure to leverage risk. Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents.

Petrom Group's management reviews the capital structure as well as group 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 3 to the financial statements.

Financial risk management objectives and policies

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

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

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34. RISK MANAGEMENT (continued)

Risk exposures and responses

Petrom Group'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 Petrom Group companies through an 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 Petrom Group'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.

Commodity Market Price Risk

Commodity Market Risk wise, Petrom Group 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 Petrom Group risk profile and the company's midterm liquidity. The market price risks of Petrom Group commodities are very closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within Petrom Group'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, 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 OMV Petrom SA 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.

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34. RISK MANAGEMENT (continued)

Foreign exchange risk management

Because Petrom Group operates in many countries and currencies, industry specific activities and the corresponding exchange risks are being analyzed. Petrom Group 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 foreign currency denominated monetary assets and liabilities of Petrom Group companies at the reporting date are as follows:

	Assets		Liabilities	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Thousand USD	616,894	562,544	26,720	57,076
Thousand EUR	155,397	98,409	440,822	612,937

Translation risk arises on the consolidation of subsidiaries preparing their financial statements in other currencies than in Romanian lei but also from the consolidation of assets and liabilities naturally denominated in foreign currency. Foreign currency assets and liabilities are those which result from transactions denominated in other currencies than the functional currencies of Petrom Group companies. The largest exposures result from changes in the value of the US dollar and Euro against the Romanian lei.

The following table details Petrom Group's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes 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.

+10% increase in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2013	2012	2013	2012
Profit/ (Loss)	42,379	33,909	(28,543)	(51,453)
Other comprehensive income	16,638	16,638	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2013	2012	2013	2012
Profit/ (Loss)	(42,379)	(33,909)	28,543	51,453
Other comprehensive income	(16,638)	(16,638)	-	-

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

(ii) This is mainly attributable to the exposure on EUR loans, trade 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 Petrom Group.

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34. RISK MANAGEMENT (continued)

In June 2011, OMV Petrom Gas S.R.L. concluded RON/USD average rate forward contracts for the period November 2011 – February 2012 where OMV Petrom Gas sold USD 29.97 million with monthly pricing and settlement, locking in the RON/USD average rate. This instrument was aimed to protect the cash flows from planned sales of gas to domestic clients during November 2011 – February 2012 against depreciation of USD versus RON, as gas purchases were linked to USD/RON exchange rate, while the sales formula price is linked to USD/RON exchange rate. During the year 2012 these forward contracts were realized, resulting in an expense of RON 8.50 million in OMV Petrom GAS S.R.L.

Interest rate risk management

To facilitate management of interest rate risk, Petrom Group'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:	Balance as at		Effect of 1% change in interest rate	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Short term borrowings	181.12	517.72	1.81	5.18
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.

Counterparty Credit Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Petrom Group. The main counterparty credit risks are assessed, monitored and managed at Petrom Group level 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.

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

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34. RISK MANAGEMENT (continued)

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows throughout Petrom Group 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 Petrom Group 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 Group financial liabilities is presented in Note 15.

35. 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 no. 102/2013 through which from January 1, 2014 a new tax of 1.5% of the gross book value is imposed on special constructions, the most relevant items for OMV Petrom 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 65, comprising the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated 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