

2013

Annual Report



PETROM
Member of OMV Group

Petrom Group – at a glance

Operational results

	2011	2012	2013
Total hydrocarbon production (mn boe)	67.77	66.87	66.64
Gas sales volumes (TWh) ¹	54.2	52.2	52.7
Net electrical output (TWh) ²	0.3	1.7	2.9
Petrobrazî refinery capacity utilization rate (%)	79	73	90
Total refined product sales (mn t)	5.23	5.00	5.22
Number of filling stations	793	798	785
Number of employees at the end of period	22,912	21,650	19,619

¹ Gas sales volumes include transfers within OMV Petrom S.A. (e.g. Brazi power plant).

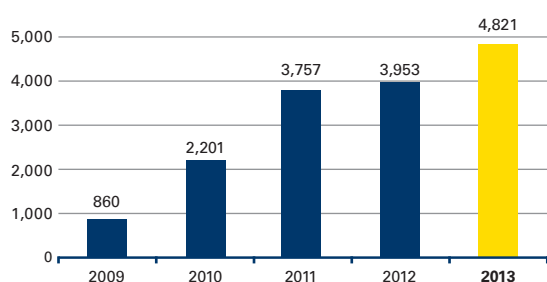
² It includes net electrical output generated by the power plants during commissioning phase. The Dorobanțu wind park commenced commercial operations on October 1, 2011 and the Brazi power plant – on August 1, 2012.

Financial results

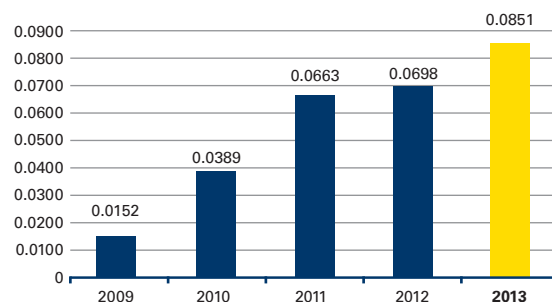
	2011	2012	2013
Sales (RON mn)	22,614	26,258	24,185
EBIT (RON mn)	4,936	5,662	5,958
Net income attributable to stockholders (RON mn)	3,757	3,953	4,821
Clean CCS EBIT (RON mn) ¹	5,475	5,855	6,015
Clean CCS net income attributable to stockholders (RON mn) ¹	4,206	4,307	4,869
Cash flow from operating activities (RON mn)	6,442	7,185	8,048
Capital expenditure (RON mn)	4,803	4,930	5,303
EPS (RON)	0.0663	0.0698	0.0851
ROACE (%)	17.3	16.5	19.0

¹ Clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS effects) resulting from R&M

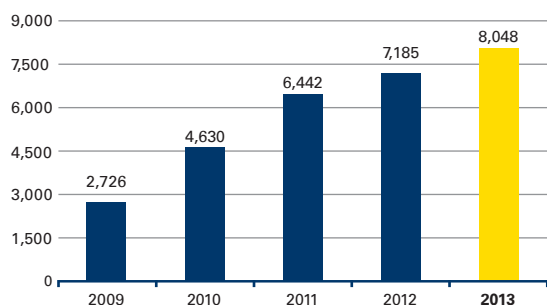
Net income attributable to stockholders (RON mn)



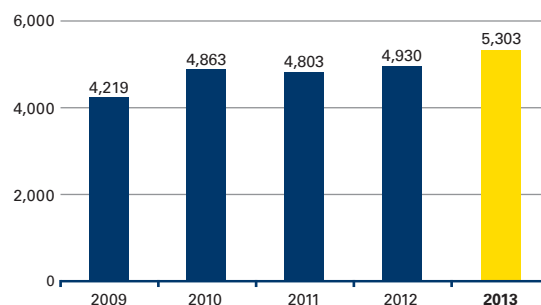
Earnings per share (RON)



Cash flow from operating activities (RON mn)

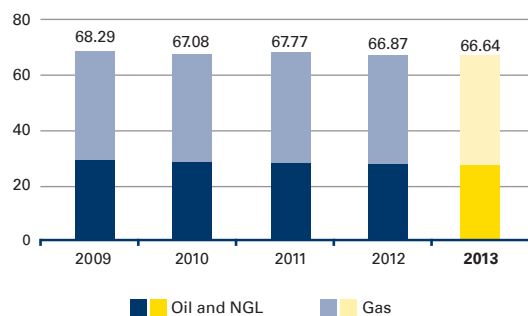


Capital expenditure (RON mn)

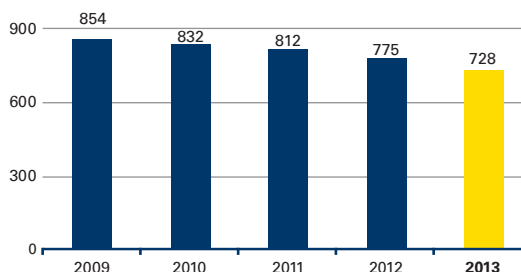


Exploration and Production

Production (mn boe)

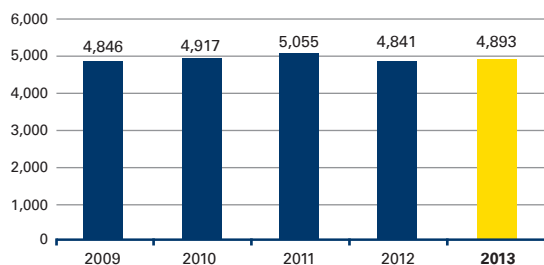


Proved reserves (mn boe)

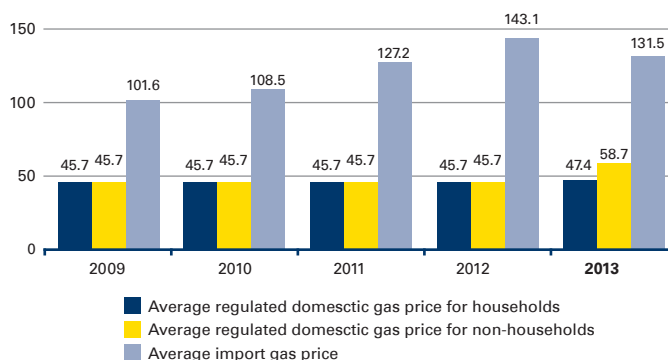


Gas and Power

Gas sales (mn cbm)

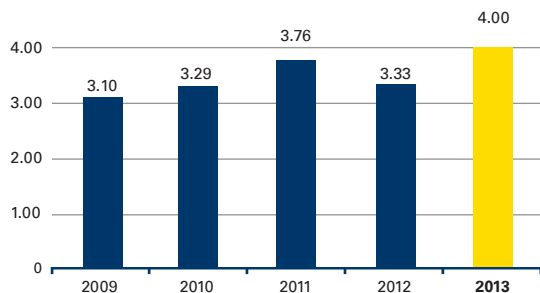


Gas prices (RON/MWh)

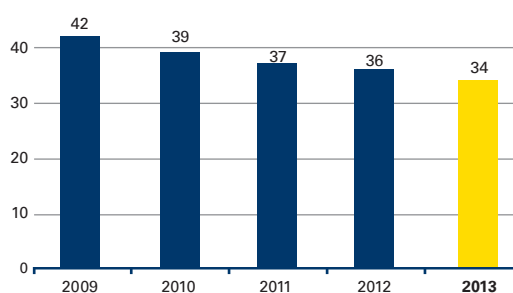


Refining and Marketing

Petrobrazi refinery input (mn t)



Romanian oil product market share (%)*



*Retail and commercial segments (excluding sales to oilcos)

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Petrom Group in figures 2013

Note: In this report, "the company", "Petrom", "Petrom Group" and "the Group" are sometimes used for convenience where references are made to OMV Petrom S.A. and its subsidiaries in general. The financials presented in the report are audited and represent Petrom Group's consolidated results prepared according to IFRS; all the figures refer to Petrom Group unless otherwise stated. Figures may not add up due to rounding differences. Market share in Marketing includes retail and commercial sales and excludes sales to oil companies.

Company



In 2013, our performance proved the suitability and effectiveness of our strategy and enabled us to make solid investments of more than EUR 1 bn in the core business. Moreover, we have maintained our healthy financial position, with an almost unleveraged capital structure, which will support the significant investments envisaged for the upcoming years in the Black Sea.

All in all, we are well on track to successfully implement our 2021 strategy, capitalizing on the high level of operational integration, while delivering sustainable performance to support upstream growth particularly in the neighboring Black Sea region.

Highlights 2013

January



February

- ▶ On **February 13**, ExxonMobil Exploration and Production Romania Limited (EMEPRL) and OMV Petrom announced the signing of an agreement with Romgaz S.A. to grant Romgaz the option to participate in petroleum operations in the deeper water portion of the Midia Block in the Black Sea offshore Romania.
- ▶ On **February 22**, Petrom signed a farm-out agreement with Repsol by which the latter acquired a 49% working interest for the area deeper than 2,500-3,000 m of the onshore exploration blocks Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII, located south of the Southern and Eastern Carpathians.

March

- ▶ On **March 21**, Petrom announced the appointment of Gabriel Selischi as member of the Executive Board of Petrom, in charge of Exploration and Production activity, starting September 1, 2013, following Johann Pleininger's waiver of mandate.
- ▶ On **March 29**, Petrom announced the start of the implementation phase for the field redevelopment project in Suplacu, located in the Northwestern part of Romania. The investments for the project amount to approximately EUR 200 mn for the period 2013-2015.

April

- ▶ On **April 4**, Petrom provided an update on Neptun Deep referring to the 3D seismic study initiated at the end of 2012 and the investments of up to USD 1 bn estimated to be incurred by EMEPRL and OMV Petrom for the exploration program, which comprises the ongoing the 3D seismic survey and further exploration and appraisal drilling.
- ▶ On **April 22**, the Ordinary General Meeting of Shareholders took place. For details please refer to page 20, section General Meeting of Shareholders.

May

- ▶ On **May 17**, Petrom announced the implementation of the redevelopment project of Opișenești oil field, located in the South-East of the country, in Brăila County, envisaging EUR 90 mn investments until end of 2013.

June

- ▶ On **June 25**, EMEPRL and OMV Petrom announced the successfully completed acquisition of the largest ever Black Sea 3D seismic survey on the Neptun Deep block, covering more than 6,000 km², as well as the procurement of the Ocean Endeavor drilling rig to resume exploration drilling on this block.

July

- ▶ On **July 10**, Petrom announced the sale of its 99.99% interest in the non-core gas distribution company Petrom Distribuție Gaze S.R.L. to Ligatne S.R.L. The transaction was completed on November 30, 2013.
- ▶ On **July 24**, Petrom announced the completion of an audit of its Compliance Management System, by means of an external evaluation performed by one of the world's big four audit firms - KPMG - making Petrom the first Romanian company to have undergone such an audit.

August

- ▶ On **August 6**, Petrom announced the commissioning of a new gas desulfurization and sulfur recovery unit at Petrobrazi refinery in July, as part of the modernization program initiated in 2010.

September

- ▶ On **September 18**, Petrom announced the appointment of Johann Pleininger as interim member of the Supervisory Board until the next General Meeting of Shareholders, following Jaap Huijskes's waiver of the mandate.

October



November

- ▶ On **November 7**, Petrom provided an update on the legal case against the Competition Council regarding the withdrawal of the retail product Eco Premium from the Romanian fuels market.

December



Statement of the Chief Executive Officer

Strong financial and operating performance

Dear shareholders,

In 2013, Petrom performed very well and delivered strong financial and operating results, in spite of persistent macroeconomic challenges in our area of operations. We have registered strong net profit and cash flow from operations, with a 19% return on average capital employed, supported by a favorable crude price environment and following nine years of profound restructuring and investments. The 2013 performance proved the suitability and effectiveness of our strategy and enabled us to make solid investments, of more than EUR 1 bn in the core business. Moreover, we have maintained our healthy financial position, with an almost unleveraged capital structure, which will support the significant investments envisaged for the upcoming years in the Black Sea.

During the year, the domestic macroeconomic and political environment was not short of challenges, yet Romania's economy achieved an estimated annual growth of 3.5%, higher than initially anticipated. Exporting industry, agriculture and net exports were the main contributors to this positive development. However, consumption remained weak, while the fiscal burden increased further. The regulatory and fiscal environment, a prerequisite over the medium and long term to fully unlock our growth potential, was challenging. However, with the domestic oil market already fully liberalized, the liberalization process in the gas and power sector also gathered momentum last year. The Euro area has turned the corner from recession to recovery, while global growth and trade picked up in the second half of 2013. The average Urals crude price remained favorable at USD 108.3/bbl.

Free float increased to 9.4%

On the capital markets, we have further improved our visibility and our free float increased to 9.4%. Our trading turnover increased 40% year-on-year, while the total return for our shareholders was 16% in 2013.

Consistent with our financial results, the Executive Management and Supervisory Board will recommend at our General Meeting of Shareholders on April 29 the payment of a RON 0.0308 per share dividend for 2013, increased by

10% compared to 2012 and corresponding to a payout ratio of 36%.

On the operations side, our company achieved several important objectives, in line with our strategy.

First and most important, the safety across all our operations, which further improved, evidencing our commitment to apply high standards of health and safety for our own employees as well as contractors'. Combined LTIR employees and contractors decreased to 0.33 from 0.49 in 2012.

Moreover, in 2013 the carbon intensity for our operated assets decreased by 3.4% compared with 2012, on the back of energy efficiency initiatives and optimization of gas pipeline networks. In the last nine years, we have reduced the hydrocarbon flaring and venting in the upstream operations by around 20%.

Second, in **E&P**, we aimed at and successfully stabilized hydrocarbon production, as in Romania we achieved the first production increase since privatization, while at Group level we broadly compensated the natural decline. This is the result of operational improvement activities carried out within upstream assets via accelerated workovers, more wells put into function, progress of the field redevelopment projects and deployment of state-of-the-art technology. In addition, we have put a lot of effort into operational excellence and continued to engage in partnerships to optimize the asset portfolio and unlock onshore growth potential. We have further implemented our mid-term strategic initiative to continue the exploration of the Neptun Deep block, and completed the largest 3D seismic program in the Romanian sector of the Black Sea, covering 6,000 km² in the deep water and additional 1,600 km² in shallow water of the Neptun block. We made progress to secure additional exploration licenses in the Black Sea deep water areas adjacent to the Neptun block, in the Midia Block (Romania) and the Skifska block (Ukraine).

The third key priority refers to **R&M**, where we planned and delivered on the Petrobrazi refinery modernization program by commissioning the

planned coker unit upgrade and the new sulfur recovery plant. The Petrobrazî refinery reached the highest utilization rate, reflecting the positive effects of the ongoing modernization program, which is adapting the refinery's yield structure to market demand, while increasing efficiency and reducing costs. In marketing, retail sales volumes have stabilized for the first time since 2009, but total marketing sales decreased by 4%, because of lower commercial sales. All in all, after many years of challenges, the Refining & Marketing segment delivered a solid operating result, in spite of increased pressure on refining margins.

Fourth, in **G&P**, we have strengthened our sales and ensured the operations of Brazi power plant within a challenging market environment. Nevertheless, the performance of this segment has been marked by weak gas and power demand and depressed electricity prices. Total gas consumption in Romania decreased by 8%, but Petrom sales were broadly stable helped by the integrated gas supply to the gas fired power plant Brazi. The estimated Romanian gross electricity production decreased by 2%, prices went down by more than 28%, while the estimated domestic consumption contracted by 5%, making Romania a net exporter of electricity. In 2013, our Brazi power plant had the first full year of commercial operations, reaching a 90% net availability and covering approximately 5% of national electricity production. In terms of gas and power market deregulation, the gas price liberalization calendar has been duly implemented since February 2013, while the power market for industrial consumers has been fully liberalized.

All in all, we are well on track to successfully implement our 2021 strategy, capitalizing on the high level of operational integration while delivering sustainable performance to support upstream growth, particularly in the neighboring Black Sea region.

Central to our strong operational and financial performance is the commitment of our employees to reach our strategic goals and secure the future of our company. In line with our strategy, we are developing a performance-based organizational culture and skill pool to achieve business growth and

operational excellence. In 2013, we continued our professional development programs and invested around EUR 10 mn in people development, which translates into more than 25 hours per employee.

Moreover, we are implementing a sustainability culture for efficient use of natural resources, high safety and environmental standards and value sharing with stakeholders for our common long-term growth. Sustainability represents the foundation of all projects and activities in Petrom. It ranges from people performance to financial discipline, from corporate governance to simply good business practices, from being a good neighbor to investing in community projects focused on education, entrepreneurship and eco-efficiency.

Looking forward to 2014, we strive to continuously improve our safety and environmental performance and achieve several strategic priorities: to further stabilize production in the upstream, progress on exploration initiatives onshore as well as in the Black Sea, finalize the Petrobrazî refinery modernization and position the company in the challenging gas and power market.

Also this year, we will continue discussions with the Romanian authorities to achieve a long term, stable and investment-friendly taxation and regulatory framework, which will allow to fully unlock our growth potential.

In the recent years, during Romania's integration into the EU we went through the most complex and successful transformation of a state-owned company. Following our responsible approach to restructuring, massive investments, strive for competitiveness and sustainable development, we have managed to transform Petrom into a leading company in terms of performance and corporate governance, which generates value for all its stakeholders, a great achievement for which I am truly grateful to all our employees and partners.



Mariana Gheorghe

**Sustainability – at
the heart of our
business**

Members of the Executive Board

The Executive Board is elected by the Supervisory Board and consists of five members.

It manages the day-to-day business of the company and monitors the activity of its group companies in accordance with the law, the company's Articles of Association, the internal rules and guidelines as well as the resolutions of the Supervisory Board and of the General Meeting of Shareholders.

The Executive Board has the following structure as of the date of this report:



Mariana Gheorghe (1956) – Chief Executive Officer and President of the Executive Board, responsible for: Corporate Affairs and Compliance; Communications and Sustainability; Legal; Strategy and Investor Relations; Health, Safety, Security and Environment; Human Resources; Operational Procurement; Regulatory and Corporate Public Affairs

Mariana Gheorghe graduated from the Academy of Economic Studies, International Relations in 1979, the University of Bucharest, Law School in 1989 and London Business School, Corporate Finance in 1995. She worked for various Romanian companies and for the Ministry of Finance. Between 1993 and June 2006, she worked for the European Bank for Reconstruction and Development (EBRD) in London where she held various banking positions with a geographical focus on Southeastern Europe and the Caucasus Region, her last position being Senior Banker. After Petrom's privatization in 2004 and following the EBRD's proposal, she became a member of the Board of Directors of Petrom until June 15, 2006, when she was appointed as Chief Executive Officer of Petrom. As of April 17, 2007, following the adoption of the two-tier management system, she is also the President of the Executive Board.



Andreas Matje (1964) – Chief Financial Officer, responsible for: Corporate Finance; Corporate Controlling; Internal Audit; Global Solutions

Andreas Matje studied Business Administration at the University of Vienna, specializing in Industrial Management and Marketing. He then followed a doctoral and various management programs, including a Global Executive MBA with Rotman Business School, University of Toronto. Between 1995 and 1999, he was employed with OMV Aktiengesellschaft as division controller upstream. After several years spent on management positions with Polyfelt GmbH (a subsidiary of OMV Aktiengesellschaft until 2005, then known as TenCate Geosynthetics Austria), Matje rejoined OMV Aktiengesellschaft in 2009 as Senior Vice President Controlling. He joined Petrom on January 1, 2013 as Chief Financial Officer and member of the Executive Board.



Gabriel Selischi (1967) – Responsible for Exploration and Production (E&P)

Gabriel Selischi studied engineering at the Polytechnical Institute of Bucharest. He finished his studies in France, where he also graduated with a master degree in Paris in 1994. He served as Senior Manager at Schlumberger Paris and as Principal at Bossard Gemini Consulting Company in Paris and Johannesburg. He successfully managed the post-acquisition transfer of several offshore oil and gas concessions in Africa while stabilizing production of such assets. He acted as Program Manager for the post-merger business integration of Total in nine countries in the EU. In 2006, he joined the Petrom E&P division where he served as Head of Strategy, Project and Engineering; during 2011-2013 he was Director of the Domestic Asset Business Unit. Following Johann Pleininger's waiver of his mandate, Gabriel Selischi was appointed Executive Board member in charge of Exploration and Production as of September 1, 2013.



Neil Anthony Morgan (1959) – Responsible for Refining and Marketing (R&M)

Neil Anthony Morgan graduated in Chemical Engineering from the University of Salford (Manchester, UK). His experience in the Refining and Petrochemicals business spans over 20 years. Before joining Petrom, he worked four years for Petronas Penapisan (Malaysia), where he held the position of Project Director, Refinery Expansion Project. Prior to Petronas, he worked for 12 years for Engen Petroleum (Durban, South Africa). After joining the company in 1992 as a Process Control Specialist, he held several positions during his tenure there, from Chief Engineer Process Control and Information Technology to Technical Services Manager and Operations Manager. During 1985-1990, he was Production Manager, Operations Manager and Chief Process Engineer in Sentrachem Ltd (Johannesburg, South Africa). He joined Petrom in 2008 and was assigned responsibility for Refining and Petrochemicals. Further to the consolidation of Petrom Group's marketing activities in OMV Petrom Marketing S.R.L., under the management of Rainer Schlang, the latter's responsibilities as former Executive Board member responsible for Marketing were taken over by Neil Anthony Morgan, starting April 17, 2011.



Cristian Secoșan (1967) – Responsible for Gas and Power (G&P)

Cristian Secoșan studied Mechanical Engineering at Polytechnic University in Timișoara and throughout his career held various management positions in multinational companies active in the energy sector in Romania, such as ABB, ALSTOM and E.ON. Prior to joining Petrom, he held the position of General Manager of Siemens in Romania. He joined Petrom in September 2012 as member of the Executive Board, responsible for Gas and Power.

Members of the Supervisory Board

The Supervisory Board represents the interests of the company and of its shareholders and is responsible for the supervision of the company's overall management. At the date of the report, the Supervisory Board of Petrom consists of nine members, elected for a four-year mandate, effective starting April 28, 2013 and until April 28, 2017, as follows:

Gerhard Roiss (1952) – President

Chief Executive Officer of OMV and Chairman of the OMV Executive Board. He pursued economics studies at Vienna, Linz and Stanford Universities and started to work at OMV in 1990. First elected at the GMS held on January 11, 2005, he has been the President of the Supervisory Board since April 26, 2011.

David C. Davies (1955) – Deputy President

Chief Financial Officer of OMV and Deputy Chairman of the OMV Executive Board. Graduated from Liverpool University and joined OMV in 2002. First elected at the GMS held on January 11, 2005.

Manfred Leitner (1960)

Member of the OMV Executive Board, responsible for Refining and Marketing. He studied commerce at the Vienna University of Economics and Business and began his career with OMV in 1985 in the E&P division. First elected at the GMS held on April 26, 2011.

Johann Pleininger (1962) – interim member

Vice-President of the CEE & Black Sea Region Division within OMV. He replaced Jaap Huijskes, who was member of the Petrom Supervisory Board between 2010 and 2013. Johann Pleininger was appointed as interim member of the Petrom Supervisory Board starting September 18, 2013, with effect until the next GMS.

Hans-Peter Floren (1961)

Member of the OMV Executive Board, responsible for Gas and Power. He studied mechanical engineering and economics at the University of Essen, Germany. He began his career with OMV in 2012. First elected at the GMS held on April 27, 2012.

George Băeșu (1970)

President of the National Authority for Property Restitution. He graduated from the Lucian

Blaa University in Sibiu, the Law Faculty, and was awarded the MA Degree in Business Law by the Nicolae Titulescu University. In 2011, he was awarded the PhD Degree in Law by the University of Bucharest. First elected at the GMS held on April 22, 2013.

Lucian-Dan Vlădescu (1973)

He graduated from the Faculty of Law within the University of Bucharest. First elected at the GMS held on April 22, 2013.

Joseph Bernhard Mark Mobius (1936)

Executive Chairman, Templeton Asset Management Ltd. appointed to the Petrom Supervisory Board following the Fondul Proprietatea's proposal. He earned Bachelors and Masters degrees from Boston University, and a PhD in economics and political science from the Massachusetts Institute of Technology. First elected at the GMS held on April 29, 2010.

Riccardo Puliti (1962)

Managing Director in charge of the energy and natural resources sectors at the EBRD. He is an MBA alumnus of Instituto de Estudios Superiores de la Empresa (IESE) and a postgraduate alumnus of the Kennedy School of Government (Harvard University) and Imperial College. He started working for the EBRD in 1996. First elected at the GMS held on April 28, 2009.

Our objectives and strategy

Petrom in 2013

Petrom is the largest oil and gas group in Southeastern Europe, with activities in the business segments of Exploration and Production, Gas and Power as well as Refining and Marketing. The Group consolidated its position in the oil and gas market following a comprehensive modernization and efficiency increase process backed by investments accounting for more than EUR 10 bn over the past nine years. Petrom is part of the OMV Group, which is also an integrated, international oil and gas player. OMV Aktiengesellschaft, the holding company of the OMV Group, holds a 51% share in Petrom and is one of Austria's largest listed industrial companies.

In E&P, Petrom is the largest hydrocarbon producer in Southeastern Europe. In 2013, Group total hydrocarbon production was 66.64 mn boe. The proved oil and gas reserves in Petrom Group's portfolio at the end of 2013 amounted to approximately 728 mn boe and hydrocarbon production averaged 182.6 kboe/d throughout the year.

In G&P, Petrom maintained a strong position

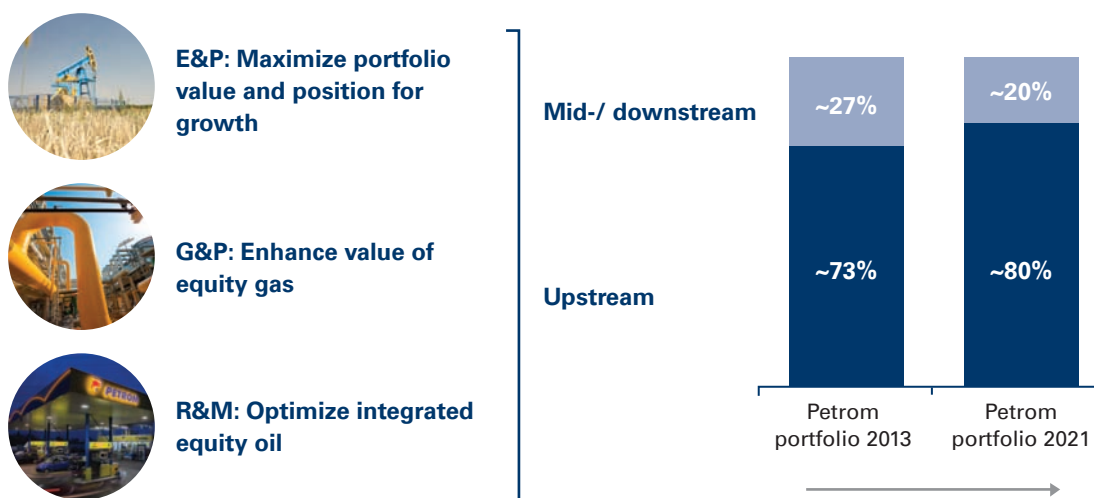
in the Romanian gas market and leveraged its gas value chain by having entered the power generation industry. In 2013, Petrom delivered 4.9 bcm of gas and generated a total net electrical output of 2.9TWh, of which more than 2.7TWh came from the Brazi plant and 0.1TWh from the Dorobanțu wind park, thus covering approximately 5% of Romania's electricity production over the full year.

In R&M, Petrom processed 3,771 kt of crude oil at the Petrobrazi refinery and had a wide geographical market, covering Romania, Bulgaria, Serbia and the Republic of Moldova with approximately 800 filling stations. The company maintains a leading position in the Romanian market, having a total market share (retail and commercial sales) of approximately 34%.

With Group sales of RON 24.2 bn, a workforce of 19,619 employees and a market capitalization of RON 26.6 bn at the end of December 2013, Petrom has proven strong execution capabilities to deliver on its strategic objectives and focus on two key enablers to achieve its long-term targets: People and Resourcefulness.

We have proven strong execution capabilities

Petrom total assets 2021



Petrom successfully delivered on its strategic objectives

Petrom strategy: "Sustainable performance for growth"

In 2013, Petrom continued to successfully deliver on its strategic objectives across all business segments, thus pursuing its vision of remaining the leading regional, integrated oil and gas company with sustainable performance to support potential upstream growth in the neighboring Black Sea region.

In E&P, the first increased level of domestic production year-on-year since privatization was achieved, while completing the largest 3D seismic acquisition campaign in the Black Sea and continuing to focus on operational excellence initiatives.

In line with its strategy to optimize downstream operations, Petrom exited gas distribution

activity to end-consumers and will continue to focus on supplying gas to commercial and industrial clients, while consolidating its market share.

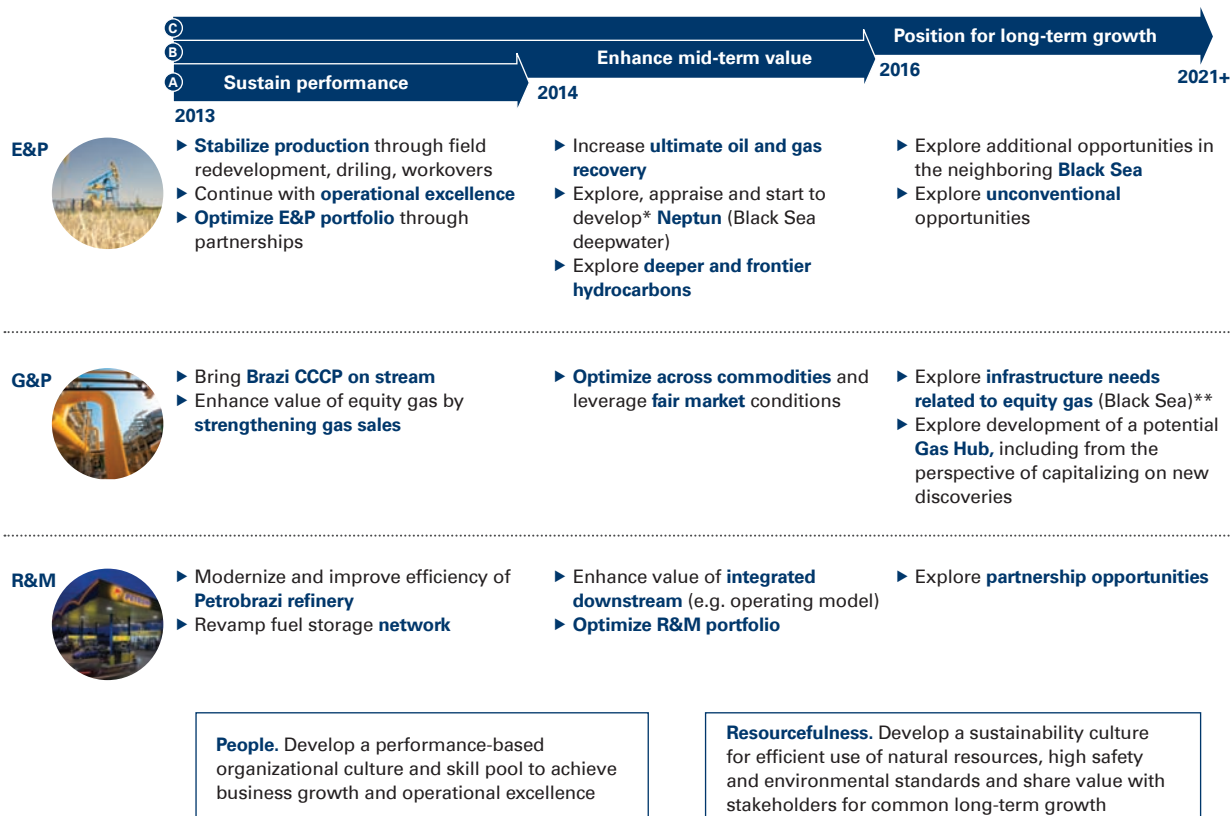
In R&M, a new unit for gas desulfurization was commissioned in Petrobrazî, with expected positive impact on the energy efficiency, while works on revamping the Bacău terminal have been completed.

The asset baseⁱ was further shifted towards upstream from 70% in 2011 to 73% in 2013, and continues to do so, as 85% of CAPEX will be invested in E&P.

The cornerstones of Petrom's strategy at a glance:

- ▶ Maximize upstream portfolio value and position for growth;
- ▶ Enhance the value of equity gas;
- ▶ Optimize integrated equity oil.

Petrom strategic initiatives assuming continued robust market fundamentals and competitive regime



* Development subject to confirmation of commercial viability

** Replacing "Infrastructure investments around Nabucco"

ⁱ Includes upstream and downstream assets only, excluding Corporate and other

Maximize upstream portfolio value and position for growth

Exploration and Production continues to be the company's backbone and is positioned to capture future growth potential. In the short-term, upstream activities are set to maintain the efforts towards stabilizing production, operational excellence and optimizing the portfolio through partnerships. Mid- and long-term value will be built by increasing ultimate oil and gas recovery, by further developing the Neptun gas discovery and by exploring additional opportunities, including the neighboring Black Sea.

In 2013, Petrom successfully delivered on its short-term strategic objectives by compensating the domestic production decline and recording the first production growth year-on-year in Romania after privatization. This goal was accomplished as a result of accelerated drilling and workovers, operational excellence initiatives and state-of-the-art technologies deployed to increase recovery rates. Furthermore, Petrom continued to optimize its portfolio through partnerships with world class companies: in the beginning of 2013, a farm-out agreement was signed with Repsol for joint deep onshore exploration in the Peri-Carpathian area of Romania. The drilling projects have already been agreed upon under the new partnership and are scheduled to be executed in 2014, thus supporting Petrom's mid-term strategic direction to explore deeper and frontier hydrocarbons.

Petrom has also made significant progress in delivering on other mid-term targets in E&P. During 2013, we continued to expand our field redevelopment portfolio by bringing seven capital projects to execution phase. Moreover, Petrom further strengthened its position in the Black Sea with a view towards future growth. Together with our co-venturer ExxonMobil Exploration and Production Romania Limited (EMEPR), we completed the largest 3D seismic acquisition in the Romanian sector of the Black Sea, with more than 6,000 km² covered in the Neptun Deep area. Moreover, we performed additional 1,600

km² seismic study in the shallow waters of the block, fully operated by Petrom. In the second half of the year, we continued with the seismic data interpretation.

In 2013, the consortium to which Petrom is part in, continued negotiations with the Ukrainian authorities for the Skifska production sharing agreement.

Moreover, together with EMEPR, Petrom took steps forward to secure an additional exploration license in the deepwater sector of the Midia block adjacent to the Neptun block.

Enhance value of equity gas

In Gas and Power, Petrom aims to increase the value of equity gas. In the short term, this translates into ensuring a sustainable operation of the Brazi power plant and strengthening gas sales. In the mid-term, Petrom will also focus on optimizing across commodities and on leveraging fair market conditions in order to further enhance the value of equity gas. Long-term strategic directions of the division involve assessing prospective infrastructure investments related to equity gas, which will support gas monetization and envisaged Black Sea growth, as well as exploring the development of a potential gas hub in Romania.

In recent years, European gas markets have undergone fundamental structural changes. The subsidized expansion of renewable power generation capacity and strong utilization of coal-fired power plants continued to negatively impact European gas demand. The latter was due to the evolution of CO₂ prices, which together with the increased focus on energy efficiency, as well as the development of new sources of gas were additional factors constantly putting pressure on the gas markets. 2013 was a challenging year for the Romanian gas market, with an 8% drop in total consumption mainly due to the ongoing price liberalization process. Despite the unfavorable market conditions, Petrom consolidated its gas sales and recorded a slight increase above the previous year, while strengthening its gas market share. Additionally, in line with its strategy to optimize downstream operations

Further progress our exploration initiatives

Challenging environment for G&P business

Divested Petrom Distribuție Gaze S.R.L.

in view of increasing efficiency and focusing on core activities, Petrom discontinued gas distribution to end-consumers by divesting its subsidiary Petrom Distribuție Gaze S.R.L.

In June 2013, the Shah Deniz II consortium decided not to select Nabucco West as their preferred pipeline option to transport Azeri gas to Europe. Following this development, Petrom updated its long-term strategic direction to exploring infrastructure investments related to equity gas (Black Sea). Moreover, as part of its long-term strategy to explore the development of a potential gas hub in Romania, Petrom is undertaking an analysis of the gas logistics value chain and will subsequently focus on gaining strategic stakeholder involvement. After starting commercial operations in August 2012, the Brazi power plant reached a net availability of 90% in 2013, contributing approximately 5% to the national electricity production and 9% to the balancing market. At the same time, the Dorobanțu wind park was focused on maximizing availability (more than 97% achieved in 2013), while optimizing operational costs.

Optimize integrated equity oil

Petrom's potential in value delivery in Refining and Marketing lies in the optimization of integrated equity oil. Leveraging our integrated business model, we will continue with the modernization program of our vertically integrated Petrobrazî refinery, which will be finalized mid-2014. Additionally, we are further enhancing our supply network chain with revamped storage facilities to fully support the retail network.

Petrobrazî refinery modernization program is on track

In 2013, following its defined strategy, R&M made solid progress with the Petrobrazî refinery modernization program by commissioning the coker unit upgrade and the new sulfur recovery plant. The program is on track to be finalized in 2014, with upgrades of the diesel hydro-treater and the fluid catalytic cracker units due to be commissioned during the mid-year planned refinery shutdown. Moreover, Petrom continued to make progress in terms of improving Petrobrazî's energy efficiency, with good

refinery performance in a depressed refining margin environment.

As part of its "3+3 terminals strategy" aimed at revamping the fuel storage network, R&M made significant progress in 2013 by finalizing the revamping of the Bacău terminal, with operations scheduled to start in the first quarter of 2014. The terminal optimization program will then continue with the reconstruction of the Cluj facility.

In 2013, R&M's mid-term strategy implementation was supported through actions to further optimize the retail filling station network in order to increase profitability. As a result, this year has seen the Marketing business unit achieve a consolidated position, despite a declining market environment. Thereafter a business and market review for each country in which Petrom operates will be performed, to further support continuous R&M portfolio optimization and value enhancement for integrated downstream.

In the long-term, R&M will explore partnership opportunities, to further optimize its integrated asset portfolio and efficiency of operations. The first steps in this direction will be taken in 2014, by examining the concept of shop-in-shopⁱⁱ cooperation for the retail network.

People & Resourcefulness

Petrom focuses on two key enablers considered to be essential in implementing its Strategy 2021: People and Resourcefulness. To this end, we are working towards developing a performance-based organizational culture and a skill pool to achieve business growth and operational excellence. Furthermore, we focus on developing a sustainability culture for efficient use of natural resources, high safety and environmental standards, as well as on sharing value with stakeholders for common long-term growth.

As part of its People strategy, in 2013 Petrom opened a technical training center in Ploiești, which became operational in the fourth quarter. This initiative is dedicated to technical training of blue collar workers from all of Petrom business divisions and was determined by the

ⁱⁱ Renting space within shop area of a filling station to partners

need for continuous professional development among the employees, according to the technological evolution and best practices of the industry.

A highlight of Petrom's Resourcefulness activity in 2013 was the launch of "Made in Andrei's Country" - a national competition of social businesses in 28 Petrom communities. Out of

the 20 finalists that benefited from personalized business training, 10 social businesses were selected and financed for implementation in 2014 with a total amount of EUR 350,000.

Moreover, in view of strengthening our relations with the communities in which we operate and share value for common long-term growth, we developed community relations plans addressing local needs.

**Programs
dedicated
to Petrom
communities**

Sustainability

Carbon intensity cut by 3.4%

Petrom has developed a strong culture of responsibility towards the environment, society and local communities. In 2012, we adopted the concept of “Resourcefulness” – a Group-wide approach that puts sustainability at the heart of our operations. In 2013, we made good progress by joining the United Nations Global Compact and cutting our carbon intensity by 3.4% ⁱⁱⁱ.

Our sustainability concept: Resourcefulness

With global energy demand growing at a steady pace and resources becoming increasingly scarce, climate change and fuel affordability issues are rising up the agenda. As the largest oil and gas producer in Southeastern Europe, our aim is to secure a reliable energy supply for society, now and in future. But our industry faces some very real challenges. We address these challenges by basing our conduct on the underlying principles of responsibility, innovation and careful management of resources.

Petrom first began integrating sustainability principles into its business strategy and operations when it joined the OMV Group in 2004. In 2012, Petrom adopted “Resourcefulness” – a group-wide concept that drives our organization towards profitable growth in a sustainable and responsible manner. Our approach is designed to create long-term win-win situations for society, the environment and Petrom. It brings together all our responsibility commitments related to environmental management, new energy, education and development, health and safety, diversity, business ethics, human rights, stakeholder and community engagement under one single overarching strategy.

Our commitments are organized around three key focus areas:

- ▶ Eco-Efficiency - limiting our impacts on the environment;
- ▶ Eco-Innovation - pursuing alternative energy sources and opportunities to drive sustainable innovation;

- ▶ Skills to Succeed - fostering the skills people need to succeed.

In 2013, we involved over 400 managers in workshops to help embed Resourcefulness in all that we do. In 2014, we will continue roll-out Resourcefulness to our employees.

The three pillars of Resourcefulness



Eco-Efficiency

Due to the nature of our business, Petrom has a special responsibility to manage its environmental impact and ensure safe and efficient operations. We aim for best practice in environmental management, with a particular focus on carbon emissions, water resources and on integrating gas into our energy mix as the cleanest fossil fuel.

Energy efficiency is a key driver in reducing Petrom's greenhouse gas (GHG) emissions. We have designed programs to drive down energy consumption across our operations. All Petrom's refining and E&P assets are managed through ISO 50001 certified energy management systems.

We closely monitor carbon intensity performance across all business divisions to drive down GHG emissions. In 2013, we cut our carbon intensity by 3.4% compared with 2012, exceeding our target of 2%. Our

ⁱⁱⁱ Brazil Power Plant 2012 performance was considered for a full year functioning, at the average of the five realized months, in line with the sector best practice

strong performance was due to a variety of factors, including a number of energy efficiency projects that took place throughout the year (e.g. in R&M, replacement of steam tracers with electrical ones, upgrade of the coker plant and increase of the gas share to fuel the cogeneration plant), as well as for E&P a reduction in venting emissions through optimization of gas pipeline networks, avoiding incidents caused by loss of integrity, and using vented gases for energy production in gas-to-power and combined heat and power equipment.

Petrom uses natural gas, the cleanest fossil fuel, to generate electricity from highly efficient gas-fired power plants.

To protect water resources, we focus on more efficient water use and investment in state-of-the-art water treatment. For instance, Petrom is investing in new or upgraded water treatment plants at a number of sites in E&P, and a revamped waste water treatment plant at our Petrobrazi refinery.

Eco-Innovation

Our Eco-Innovation aim is to secure valuable, long-term alternatives to traditional fossil fuels and developing new technologies that can help reduce CO₂ emissions. To deliver this, we work in partnership with OMV Group on initiatives such as the production of second generation biofuels, on building the required fuelling infrastructure for hydrogen mobility, on the direct conversion of solar energy into hydrogen as well as the chemical recycling of plastic waste at the end of its life span. By sharing innovation and expertise across the Group, we are enhancing the value we can deliver while finding innovative new ways to meet the world's growing energy needs.

Skills to Succeed

We aim to create value and secure our long-term future by helping people foster and develop the skills they need to be successful. Our focus is on supporting our own employees (around 20,000), as well as the members of the

communities in which we operate.

In the workplace, we opened a new training center in Romania to deliver high quality training based on the latest industry innovations. Built in 2013, the new facility will help to develop the skills and expertise of our oil and gas workforce into the future.

Our aim with local communities is to support economic development, education and entrepreneurship by investing in vocational training and local workforce and supplier development. In 2013, we organized the largest social business competition in Romania, "Made in Andrei's Country", which received over 500 business solutions to address prevalent social issues facing 28 communities where Petrom operates. A jury selected the ten best ideas to receive a year's worth of business start-up consultancy and grants totaling EUR 350,000. The businesses are expected to generate over 50 new jobs.

Petrom also worked with Junior Achievement Romania to deliver entrepreneurship training to over 12,000 pupils and to produce learning kits to support their teachers. Also, together with KPMG, we organized ten training sessions on public procurement and EU funds accession. 100 local authorities from 50 Petrom operational communities were trained.

Reporting on our material issues

We have identified the following material issues as being central to our ability to succeed as a business:

- ▶ Health, safety, security and environment (HSSE)
- ▶ Human Rights
- ▶ Diversity and human resources
- ▶ Business ethics and governance
- ▶ Stakeholder engagement and community management.

We measure the effects of our actions related to these issues to ensure we make the best decisions for both Petrom and our stakeholders. Selected key performance

„Made in Andrei's Country" – the largest social competition in Romania

Continuous focus on reducing spills

indicators (KPIs) and more detailed information can be found in our annual Sustainability Report.

Environment and energy management

We manage our environmental impacts along our entire value chain. Petrom's goal is to use natural resources efficiently and to minimize waste and emissions to air, water and land. We constantly strive to reduce our GHG emissions and the amount of water we consume for our operations.

Hydrocarbon spillages are a key risk factor for our business due to the potential environmental damage they can cause. A key aim of Petrom's E&P strategy is to be in control of this risk by 2015. In 2013, we saw 1,666 hydrocarbon spillages as a result of our operations. To address this, we carried out a broad range of activities, including creating spill risk maps which provide detailed information on critical points along pipelines and key risk areas in our operations. 60% of Petrom E&P Assets are now covered by the maps. In 2013, we assessed 4,400 pipelines, 12,000 items of static equipment and 600 facilities, such as tank farms and compressor stations. We will be following this with more detailed investigations of our highest risk facilities.

In 2013, we continued to invest in water-related projects. Reducing water loss through effective maintenance was a key focus. We ran a water efficiency campaign which engaged all Petrom employees in identifying opportunities to promote water efficiency across the business. Out of the 177 ideas that were generated, 62 have been implemented.

Health, safety and security

Health, safety and security are basic requirements for our business success and our continued license to operate. Our main concern is our employees' physical safety and wellbeing. We believe all accidents can be prevented and we focus on process reliability, safety and health promotion, and improved

road safety. Our approach is based on hazard identification, risk management and safety training. By recording and investigating all incidents and near misses, we are making sure that we learn from previous experience and prevent recurrences.

Our lost time injury rate (LTIR) improved from 0.41 in 2012 to 0.37 injuries per million hours worked in 2013. Among our contractors, LTIR improved to 0.31 injuries per million hours worked compared to 0.55 in 2012. Combined LTIR employees and contractors decreased from 0.49 in 2012 to 0.33 in 2013.

We also introduced a number of new programs to tackle key risks associated with fatalities, as well as ensuring all employees meet our strict health, safety and security standards. These included a new electrical safety campaign, a hazardous substances management campaign, and our annual "Safety Day" attended by 1,150 people which focused on process safety and the Petrom "Golden Rules".

Additional highlights from 2013:

- ▶ We met the goals set out in the Commitment to "European Road Safety Charter" by installing more than 3,100 in-vehicle monitoring systems and providing training to over 6,500 stakeholders. 3,800 drivers took part in defensive driving training, resulting in a significant reduction in the number and severity of vehicle accidents.
- ▶ We offered two new screening programs for cardiovascular diseases and allergies. These are in addition to legally required medical examinations. Over 9,500 employees benefited from these programs in 2013. Also, we rolled out a healthy eating campaign with over 3,500 participants.
- ▶ We extended access to our online safety and emergency training platform to more than 3,000 users. More than 1,000 employees accessed the training materials and tests available through the platform.

Human rights

Human rights are a central pillar of the Resourcefulness concept. In December 2013,

we were welcomed as a member of the United Nations Global Compact (UNGC) and have subsequently embedded their principles into our own human rights policy and code of conduct. In 2013, we developed new human rights KPIs with support from OMV human rights specialists.

We aim to communicate openly with our stakeholders on human rights issues, and to demonstrate the action we have taken to meet EU legislation and Global Compact principles. Petrom's Human Rights Policy and Matrix guide our business decisions, and we engage with independent experts to help build our understanding and capability. In 2012, we introduced a new human rights e-learning package. In 2013, 28 Petrom managers were involved in workshops focusing on discrimination in the workplace.

Diversity and human resources

Petrom's workforce is made up of around 48 different nationalities, and diversity, equal opportunities and career development are high on the agenda at all our operating locations. We strive to attract the best people, and to give them the tools and skills they need to perform to their full potential. Petrom is acknowledged as an employer of choice, and we aim to keep it that way.

Achieving gender balance has always been a challenge in our industry. By the end of 2013, the proportion of women across the Petrom Group was 23%. Of this mix, 30% (379) women were in Management Positions.

To promote gender balance in our industry, Petrom hosted the 2013 launch of the Women Leadership Cross-Company Mentoring Program. The program is a partnership with leading global firms which aims to develop the Romanian women leaders of the future.

Business ethics and governance

Trust and integrity form the basis for all our activities, and we aim for a culture of ethics and responsibility. All Petrom employees are expected to demonstrate honesty,

transparency and integrity in their business dealings. Our governance procedures are centered on a Code of Business Ethics, which includes clear rules on conflicts of interest, gifts and hospitality, and the assessment of third parties. A compliance system and relevant processes help to ensure we meet our commitments.

In 2013, Petrom became the first Romanian company to have a certified compliance management system. We voluntarily submitted our management system for benchmarking against international standards by KPMG. Every year, we deliver comprehensive training on topics related to business ethics, antitrust, and insider trading. In 2013, this included more than 1,700 employees. We also introduced a new compliance tool, the e-learning on Competition Law, which adds up to the antitrust compliance program that combines training, guidelines, internal rules and expert advice. We also continued our series of professional "Compliance Days," with four events focused on Exploration and Production (E&P) areas of the business.

Stakeholder engagement and community management

Petrom depends on the support and co-operation of a wide range of stakeholders to continue to operate. We aim for regular dialog to create meaningful, long-term relationships with stakeholders – helping us understand their views, interests and needs so we can improve our activities.

In 2013, the Petrom Stakeholder Dialog Forum brought together partners including authorities, academics, experts, consultants, peer companies, regulators, financial institutions and non-governmental organizations to help us identify opportunities to improve efficiency through education and research.

We aim to positively influence industrial and regional development including by taking part in stakeholder initiatives. In 2013, we helped to create a new framework to ensure

**Certified
compliance
management
system**

Romanian authorities and businesses meet EU requirements regarding energy and gas market strategies. Our activities included dialog and production of advocacy documents including the book "Energy Industry, A Growth Driver for Romania"

As a major employer and contributor to Romania's economy, we play an important part in the communities in which we operate. Our "Andrei's Country" community program aims to inspire Romanian communities to take action and change their lives in the fields of job creation, access to non-formal education and the cultivation of their citizen spirit. Our support ranges from employee volunteering to

direct financial contributions and campaigns.

Understanding our impacts on and opportunities to support local communities is a key consideration whenever we design a new business initiative or community project. We consider community needs, local strategy, our business interest in the area and the potential impacts of the project. In 2013, we carried out 30 community assessments and also funded six community based organization projects.

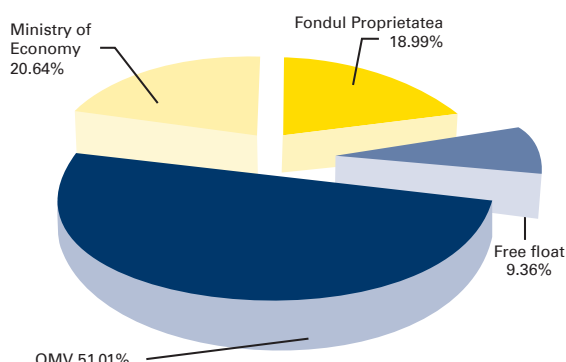
More detailed information about Petrom's 2013 sustainability performance will be available in the company's annual Sustainability Report which will be published in May 2014.

LTIR improved in 2013

	2010	2011	2012	2013
Lost-time injury rate (LTIR) per million hours worked for own employees	0.64	0.47	0.41	0.37
Lost-time injury rate (LTIR) per million hours worked for contractors	0.32	0.39	0.55	0.31
Lost-time injury rate (LTIR) per million hours worked combined employees and contractors	0.48	0.42	0.49	0.33
Total recordable injury rate (TRIR) per million hours worked for own employees	0.92	0.74	0.78	0.67
Total recordable injury rate (TRIR) per million hours worked for contractors	0.52	0.60	1.03	0.51
Total recordable injury rate (TRIR) per million hours worked combined employees and contractors	0.72	0.66	0.93	0.57

Petrom shares

Shareholder structure



As of the end of 2013, OMV Petrom S.A. had the following shareholding structure: 51.01% - OMV Aktiengesellschaft, 20.64% - the Ministry of Economy, 18.99% - Fondul Proprietatea. The remaining share was free float, traded at the first tier of the Bucharest Stock Exchange (BSE). Around 540 institutional investors from both Romania and abroad held approximately 7.5% of the free float shares, with the remainder (1.8%) held by more than 460,000 private individuals. On May 17, 2013, Fondul Proprietatea sold a 1.12% stake in OMV Petrom S.A. via an accelerated private placement on the BSE. On November 15, 2013, the European Bank for Reconstruction and Development (EBRD) sold off its entire 1.62% participation in OMV Petrom S.A. via an accelerated private placement on the BSE.

Shares

In 2013, the domestic stock market posted

remarkable growth rates, witnessing a relatively flat evolution during the first half of the year, followed by a sustained upward trend, with all indices displaying a superior performance against the previous year.

In terms of trading, Petrom's share price continued its upward trend in 2013, thus consolidating the previous year's strong performance. In late May, the stock registered the year low of RON 0.4098 per share, and then steadily increased to its year high of RON 0.4784 per share, reached in early November. Overall, Petrom's share price gained 9.7% on a full-year basis, still below the performance of the BET index (representing the ten most liquid blue chip stocks listed on the BSE), which advanced by 26.1%, and the BET-C (BET Composite) index, which grew by 20.0% over the same period. Vienna Stock Exchange's ROTX index (comprising the 14 most liquid blue chip stocks traded on the BSE) was up 24.7%, while the BET-NG sector index (comprising stocks in the energy and utilities sectors) moved up by 6.1%. Petrom's market capitalization at the end of 2013 grew to RON 26.6 bn (EUR 6.0 bn), accounting for 19.9% of total market capitalization of the companies listed on the BSE.

Largest Romanian listed company by market capitalization

Petrom share symbols

ISIN	ROSNNPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNP.BX

Petrom shares at a glance

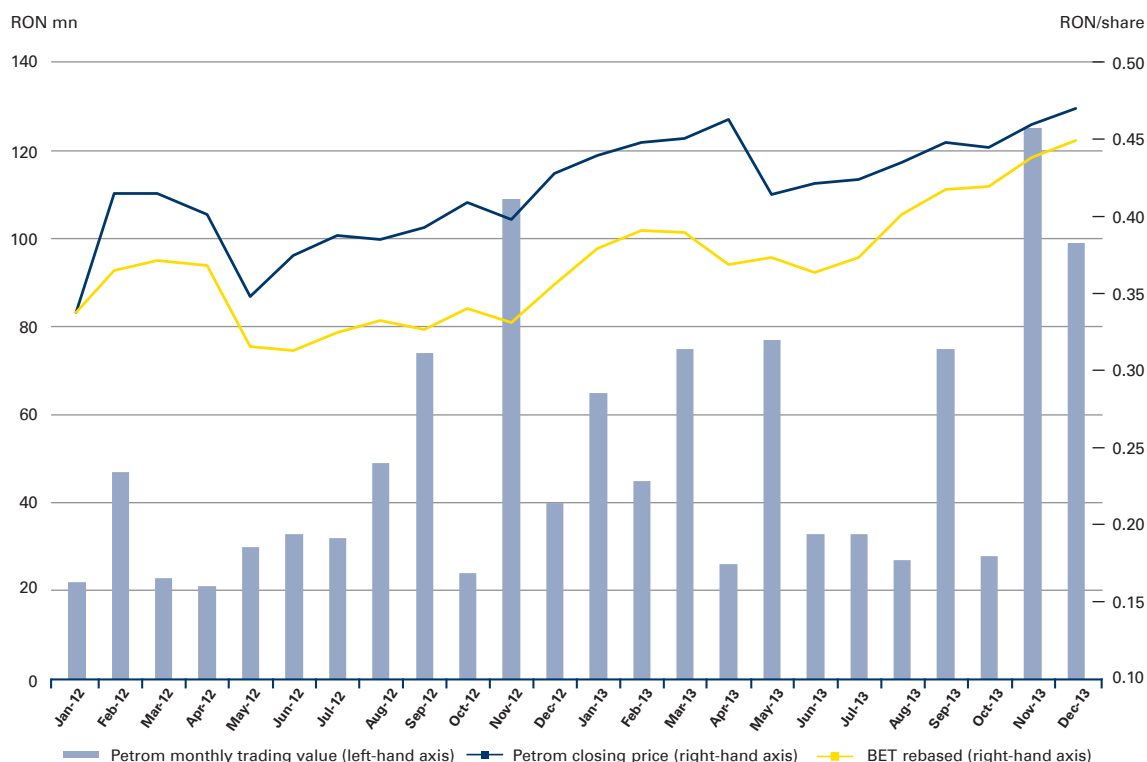
	2011	2012	2013
Number of shares	56,644,108,335	56,644,108,335	56,644,108,335
Market capitalization (RON mn) ¹	16,427	24,249	26,611
Market capitalization (EUR mn) ¹	3,803	5,475	5,961
Year's high (RON)	0.4500	0.4327	0.4784
Year's low (RON)	0.2750	0.2900	0.4098
Year end (RON)	0.2900	0.4281	0.4698
EPS (RON/share)	0.0663	0.0698	0.0851
Dividend per share (RON)	0.031	0.028	0.0308 ²
Dividend yield ¹	10.7%	6.5%	6.6% ²
Payout ratio	47%	40%	36% ²

¹ Calculated based on the closing share price as of the last trading day of the respective year

² Proposed dividend, subject to GMS approval

**Petrom shares
gained 9.7% in
2013**

Evolution of Petrom share price and BET index



General Meeting of Shareholders

On April 22, 2013 the Ordinary General Meeting of Shareholders (OGMS) approved OMV Petrom S.A.'s Revenues and Expenditures Budget for the financial year 2013 and the distribution of a gross dividend of RON 0.028 per share for the financial year 2012: a total amount of RON 1,586 mn, corresponding to a 40% payout ratio. The OGMS also appointed members of the Supervisory Board for a new four-year mandate, effective as of April 28, 2013 until April 28, 2017 and reappointed Ernst & Young Assurance Service S.R.L. as the company's financial auditor for 2013.

Investor Relations activities

Throughout 2013, the company's top management and the Investor Relations (IR) team have increased presence in the local and foreign capital markets, by regularly organizing meetings and conference calls with both local and foreign institutional investors and analysts.

Additionally, the company has also attended analyst and investor conferences organized in Romania and abroad (London, Warsaw, Prague).

At these events, analysts and investors had the opportunity to address questions directly to the company's top management team as well as to the Investor Relations representatives, and bring up such topics as the company's reported results and its strategic directions. More than 100 one-to-one or group meetings and presentations with more than 150 investors and analysts were held throughout 2013.

Starting 2010, Petrom reports condensed consolidated interim financial statements prepared according to International Financial Reporting Standards (IFRS) to the capital markets on a quarterly basis. This provides for a high degree of transparency and facilitates comparability with our international peers. In line with Romanian legal requirements applicable for listed companies, starting 2012 Petrom also prepares separate individual financial statements in accordance with IFRS.

In the interests of transparency and timeliness, all company reports, releases and important information for shareholders, analysts and

**Increased
investor relations
dedicated activity**

investors are promptly posted and archived, after dissemination to the BSE, on our corporate website www.petrom.com, under the Investor Relations section.

Dividends

On March 25, 2014, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.0308 per share, increased by 10% compared to 2012, and resulting in a payout ratio of 36%. The dividend

proposal is subject to further approval by the General Meeting of Shareholders, on April 29, 2014.

Own shares

As at year-end 2013, according to the Law 31/1990, OMV Petrom held a total of 204,776 own shares, representing 0.0003% of issued share capital.

In 2013 Petrom did not buy back or cancel any of its own shares.

**RON 0.0308 /
share dividend
subject to GMS
approval**

Financial calendar 2014

Financial events	Date
Presentation of the results for January-December and Q4 2013 ¹	February 19, 2014
Publication of the Annual Report 2013	April 29, 2014
General Meeting of Shareholders	April 29, 2014
Presentation of the results for January-March 2014	May 13, 2014
Presentation of the results for January-June and Q2 2014	August 12, 2014
Presentation of the results for January-September and Q3 2014	November 6, 2014

¹ Petrom Group preliminary, unaudited consolidated results prepared according to the International Financial Reporting Standards (IFRS)

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Business environment

Global economic growth of 2.8%

Globally

Although global activity strengthened during the second half of 2013, the world economy recorded a 2.8% growth, lower than in 2012. In the US, real GDP rose by 1.9%, as private consumption growth, helped by robust job creation and rising house prices, became more entrenched. Among emerging economies, the picture was more uneven. Russia and Brazil showed more signs of weakness, with the former growing by a meagre 1.5% and the latter marginally avoiding slipping into recession. Other emerging markets, such as Argentina or Turkey, experienced financial tensions, mainly due to feeble macroeconomic fundamentals. In contrast, the Chinese economy appeared to have stabilized at more sustainable growth rates, advancing by 7.7%. In Europe, the speed of economic recovery was subdued, as expected. The EU economy grew by 0.1%, as the shortage of demand continued to be the main constraint on growth. Supply potential also remained substantially impaired by the weakness of investment and high unemployment rates. Across the EU, financial conditions stabilized, inducing further declines in government debt risk premiums.

Consumer price inflation in advanced economies fell to 1.4% in 2013, down from 2.0% a year earlier, as output gaps in major developed economies persisted due to excess supply capacity and weak demand. Global non-fuel commodity prices dropped by 1.5% for the second year in a row. The underlying price pressures in the euro area remained muted with monetary and credit dynamics restrained. Global trade volume advanced at 2.5%, the same rate as in 2012, confirming the fact that recovery continued to be sluggish.

Global oil demand up 1.4%

In 2013, total **global oil demand** rose by 1.4% to 91.3 mn bbl/d compared to 2012. The OECD oil demand rose by a meagre 0.2% with strong US deliveries lifting aggregate demand for the Americas. Expansion in the US, where oil demand rose by 1.7%, compensated contraction elsewhere, including Mexico and Canada. The economic slowdown in a number of non-OECD countries reduced the pace of oil demand there

to 2.7%, below the previous five-year average of 3.6% during the period 2008-2012. A sustained period of steep decline in European oil demand eased back in 2013 as the euro zone emerged from recession. The fall in European oil demand slowed down to (0.7)% from (3.5)% a year before. Oil demand in Asia, particularly in China, continued to be strong, raising total non-OECD demand by 1.1 mn bbl/d, or 2.6% in 2013. **Global oil supply** recorded a modest increase in 2013, going up by 0.7% compared to 2012, to 91.6 mn bbl/d. Total OPEC oil supply fell by 0.8 mn bbl/d compared to 2012, to 30.5 mn bbl/d, as production shrunk in Libya, Iran and Nigeria. In contrast, liquid supplies for the non-OPEC producers rose by 1.3 mn bbl/d in 2013, to 54.7 mn bbl/d. OECD oil production went up by 5.4% to 20.9 mn, driven strongly by the drilling activity in the US. Overall, US oil output increased by 1.1 mn bbl/d or 12.4% in 2013, to 10.3 mn bbl/d, with NGL production rising by 150 kbbbl/d.

In 2013, the average Brent price stood at USD 108.7/bbl, 2.7% lower compared to its 2012 level. Oil prices stayed relatively high due to a surprising robustness in global oil demand, especially in the OECD, and weak supply growth, caused by the continued problems in the OPEC. The gap between Brent and Urals oil prices narrowed in 2013 to USD 0.4/bbl down from USD 1.1/bbl a year earlier. In 2013, the average Urals price was USD 108.3/bbl, 1.9% lower compared to 2012.

Romania

According to preliminary estimates, the Romanian economy grew by 3.5% in 2013, stronger than expected. Output was mainly driven by a robust performance of the industry sector and a bumper harvest whose contribution to GDP growth was 2.3% and 1.1% respectively. The volume of industrial production grew by a solid 8.1%, spurred by a slight increase in economic activity in Europe and higher presence of domestic producers on non-EU markets. This, in turn, had a positive impact on export growth, which rose by an impressive 10% in EUR-denominated terms in 2013. The rate of imports growth, meanwhile, was more muted, with a marginal advance of 1%, which helped pushing

down the trade balance deficit by an outstanding 87% compared to 2012, to EUR 0.8 bn. In 2013, foreign direct investment reversed its trend after four years of continuous decline and recorded a 27% annual increase to EUR 2.7 bn.

Despite the overall positive evolution of the economy, domestic consumption displayed a lackluster performance, growing by 0.3%. Households' purchasing power remained weak, with average real wage growth standing at 0.8% in 2013 as companies' cost controlling measures restrained nominal wage growth. However, household final consumption expenditure showed some signs of revival, especially during the second part of the year, and provisional data put its annual growth at 1.4%.

Official preliminary data appear to show that labor market conditions took a change for the worse, with the year-end unemployment rate going up to 7.3% from 6.7% in 2012. Job creation continued to pose a challenge and the number of employees in the economy at the end of December 2013 remained broadly unchanged when compared to the same period a year ago. Strong exports growth and a more disciplined fiscal policy helped improve further macroeconomic stability. The current account deficit shrunk in 2013 reaching an estimated 1.1% of GDP while the budget deficit stood at (2.6)% of GDP. In September 2013, the authorities signed a third consecutive two-year IMF Agreement

as a means to prevent a backward slippage of reforms already implemented, consolidate fiscal and structural reforms, especially in the energy and transport sectors. However, throughout 2013, fiscal policy was geared towards an increase in the overall tax base in order to meet the end-year budget deficit target. Nevertheless, despite economic growth, tax revenues fell in real terms by 0.4% compared to 2012.

Annual harmonised consumer price inflation (HCPI)

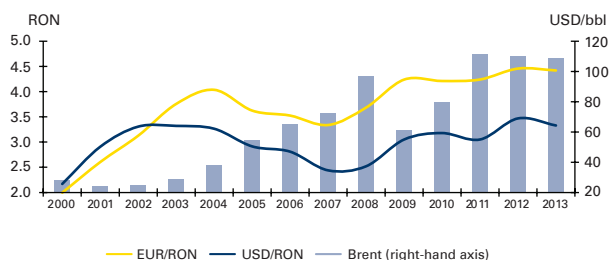
stood at 1.3% at the end of 2013, a historic low, driven by diminished inflationary expectations, a lower level of pressure coming from commodity price inflation and a strong harvest. Taking advantage of the low inflation environment and hoping to revive the demand for bank credit, the National Bank of Romania embarked on a monetary easing cycle, cutting its benchmark interest rate by a cumulative 125 basis points to 4% throughout 2013.

In 2013, the RON rose against both the EUR and the USD by 0.8% and 4.1% respectively. The EUR traded within the RON 4.31-4.55 band, i.e. +/- 2.7% variation around the mean, implying a relatively low volatility.

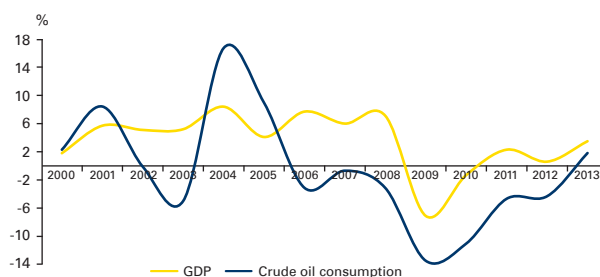
Romanian **energy supply** fell in 2013 by 9.2% to 30.1 mn toe as domestic energy price increases and efficiency gains caused energy demand to decline. Overall, total energy imports fell by 15.3%.

The RON strengthened against both the EUR and the USD

Crude price (Brent) and FX rates, annual averages



Romania, GDP and crude oil consumption, annual change





Business segments



Exploration and Production (E&P)

First year of production increase in Romania since privatization

2013 was the first year of production increase in Romania since privatization with the yearly average rate being 1 kboe/d higher than in 2012. Group production was broadly stable, at 182.6 kboe/d, as the good results of the production optimization initiatives successfully counterbalanced the natural decline of some key fields. The LTIR in E&P significantly improved to 0.48, a level which is in line with the international benchmark.

As part of Petrom's exploration focus, both shallow and deep water exploration continued in the Black Sea, with extensive 3D seismic campaigns finalized mid-year. The 3D seismic coverage of exploration acreage in Romania reached 73% (weighted average for onshore and offshore). In addition, Petrom signed a farm-out agreement with Repsol for the exploration of some onshore blocks.

Proven oil and gas reserves in Petrom Group's portfolio stood at approximately 728 mn boe at year-end.

E&P at a glance

	2011	2012	2013
Segment sales (RON mn) ¹	11,743	12,992	13,220
EBIT (RON mn) ²	5,236	5,467	5,529
Clean EBIT (RON mn)	5,432	5,754	5,542
Capital expenditures (RON mn)	3,254	3,753	4,401
Total Group production (mn boe)	67.77	66.87	66.64
thereof in Romania	63.41	62.39	62.54
Proved reserves as of December 31 (mn boe)	812	775	728
thereof in Romania	786	750	707

¹ Include inter-segment sales

² Excluding intersegmental profit elimination

Health, Safety, Security and Environment (HSSE) is E&P's first priority

The Lost-Time Injury Rate (LTIR) in E&P improved to 0.48 in 2013, in line with the international benchmark. The overall HSSE focus has been further strengthened in 2013 and additional improvement measures are being worked on. The fatality rate has been reduced by 80% from 2008 to 2013.

Clean E&P EBIT decreased by 4% compared to 2012 to RON 5,542 mn, mainly due to unfavorable FX effects (weaker USD against RON), and higher depreciation expenses. No hedges were concluded in 2013, whereas the 2012 result included hedging losses of RON (394) mn.

2013 reported EBIT amounted to RON 5,529 mn and compared to 2012 it increased by 1% due to lower net special charges. In 2013, there were restructuring personnel costs of only RON (13) mn, whereas in 2012 the reported EBIT reflected net special charges of RON (287) mn, mostly related to a legal case in Kazakhstan for uncollected receivables, a restructuring

provision related to personnel and a net special charge in relation to a community project.

E&P capital expenditures were RON 4,401 mn, up by 17% compared to 2012. The investments were focused on drilling, including appraisal wells, integrated FRD projects and workover/subsurface operations. Exploration expenditures reached RON 453 mn, which mainly include the 3D seismic campaigns performed in the Black Sea and expenses related to five onshore exploration wells. However, they were 14% lower compared to 2012, which reflected the drilling costs associated with the Domino-1 exploration well.

In 2013, Petrom Group's hydrocarbon production amounted to 66.64 mn boe (thereof 62.54 mn boe in Romania), slightly lower compared to 2012 due to increased production in Romania and lower production in Kazakhstan. On average, daily oil and gas production was 182.6 kboe (thereof 171.4 kboe in Romania). In Romania, total absolute value production costs in RON terms were lower by 3% compared to 2012, mainly due to strict cost management.

E&P reported EBIT of RON 5,529 mn

Group production costs of USD 15.45/boe were broadly flat (production costs in Romania were also flat at USD 14.96/boe) as the unfavorable FX effects (USD depreciated 4% against RON) were offset by lower production costs, as well as slightly lower production available for sales.

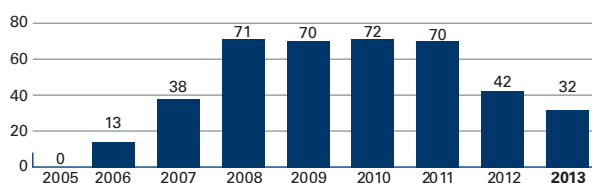
Reserve replacement rate (RRR)

As of December 31, 2013 the total proved oil and gas reserves in Petrom Group's portfolio amounted to 728 mn boe (of which Romania had 707 mn boe), while the proved and probable oil and gas reserves amounted to 1,025 mn boe (of which Romania had 977 mn boe). The Group's three-year average reserve replacement rate stood at 48% in 2013 (2012: 61%), while in Romania it also stood at 48% (2012: 61%). For the single year 2013, the Group's rate was 31% (2012: 44%), while the reserve replacement rate in Romania was 32% (2012: 42%), mainly as a result of exploration and appraisal wells and reservoir studies performed.

Recent history shows that Petrom was able to keep its reserve replacement rate around the 70% level mainly thanks to continuous revisions of reserves pertaining to mature fields. This is a result of reservoir studies performed that

involved drilling program results combined with diversification of recovery mechanisms. Nevertheless, the potential to organically generate additional reserves via revisions, in a confined geographical landscape with mature fields, has reached its limits in 2011.

Single year RRR (Romania)



Group's three-year average RRR of 48%

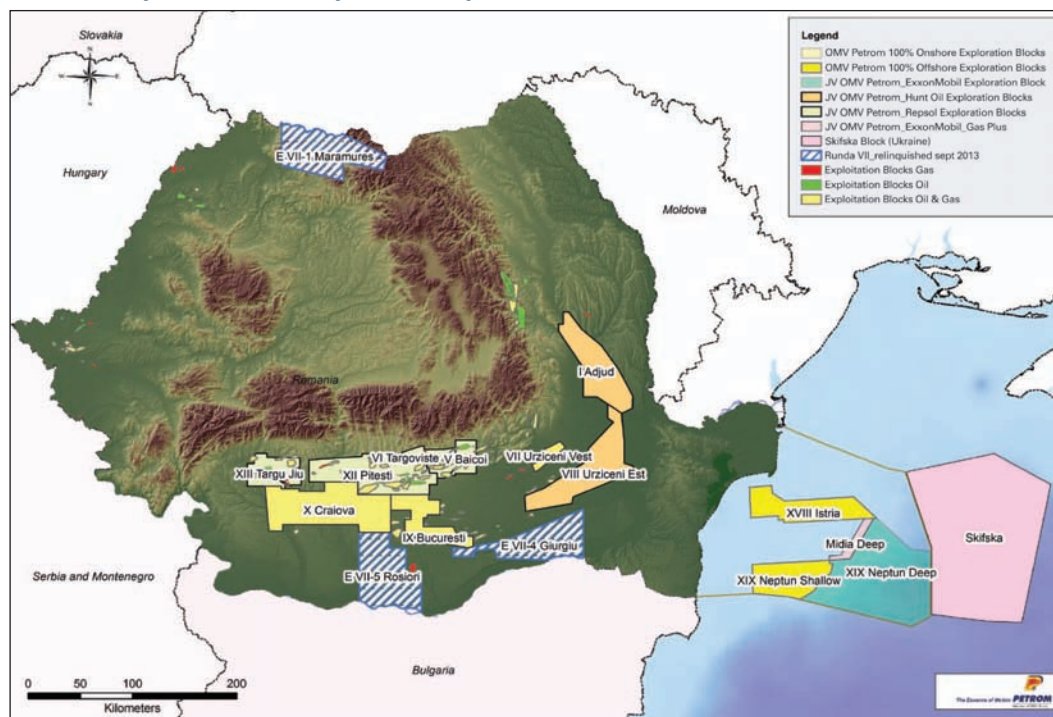
Operational highlights 2013

Romania

At the end of 2013, Petrom held nine onshore and two offshore exploration licenses in Romania, covering a total area of 32,291 km² (of which 12,321 km² offshore). In September 2013, Petrom relinquished the Maramureș, Giurgiu and Roșiori licenses (awarded in the seventh Bidding Round).

Petrom operates 239 commercial oil and gas fields in Romania, from which a combined volume of 171.4 kboe/d was produced during 2013 (2012: 170.5 kboe/d).

Petrom's exploration, development and production concessions in Romania



Largest 3D seismic acquisition program in the Romanian sector of the Black Sea

Exploration

A high level of exploration effort has continued in 2013 with a focus on offshore initiatives and additional licence awards opportunities in the areas adjacent to the Neptun block.

In the deepwater sector of the Neptun block, a joint venture between Petrom and ExxonMobil Exploration and Production Romania Limited (EMEPR), we further progressed the exploration activity, with a 3D seismic program of approximately 6,000 km², which started in December 2012 and was completed in June 2013. Additional exploration and appraisal activity is planned for the next years to indicate if the deep offshore gas discovery Domino-1 is commercially recoverable. Should data interpretation and assessment confirm the technical and commercial feasibility of the deep water gas production from the Neptun block, the ultimate investment during both the appraisal and development phases could reach several billions USD with potential for first production towards the end of the decade at the earliest. In the shallow water sector of Neptun block, which is fully operated by Petrom, a 3D seismic acquisition program was acquired, covering an area of 1,600 km². These seismic data are undergoing interpretation which will allow evaluation of additional opportunities in the Black Sea.

Pursue offshore initiatives and additional license opportunities

Other acreages in the neighboring area of Neptun block have been pursued, following the Domino-1 exploration success.

In Ukraine, negotiations for the Production Sharing Agreement for the Skifska block have continued in 2013. In August 2012, following a bidding round organized by the Ukrainian Government, the consortium led by EMEPR (project operator), won the tender for the Skifska block in the deep waters of the Ukrainian Black Sea, adjacent to Neptun block.

In Romania, in October 2012, OMV Petrom and EMEPR signed a Transfer Agreement for the purchase of 85% interest in the hydrocarbon exploration and production rights to a portion of the XV Midia block ("Midia Deep") in the Romanian Black Sea, also adjacent to Neptun block. Petrom's participating interest stands

at 42.5%. In early 2013, an option agreement was signed by OMV Petrom and EMEPR with the State majority-owned company Romgaz, the other large gas producer in Romania. The agreement grants Romgaz the option to purchase 10% of the participating interest in the Midia Deep operations. Romgaz's option to enter is triggered by the Transfer Agreement becoming effective and an announcement of a commercial discovery.

For onshore exploration, 2013 was a year of highly intensive geological and geophysical activities. The seismic data recorded in the previous year have been processed and interpreted in order to rebuild the drilling projects portfolio.

The extensive seismic acquisitions campaign initiated in beginning of 2013 has continued with additional 414 km² 3D and 310 km 2D seismic. Exploration and appraisal drilling comprised seven exploration wells and two appraisal wells. The exploration success rate was 44%.

During February 2013, a farm-out contract for the deep part of the Peri-Carpathian licenses (blocks Băicoi, Târgoviște, Pitești and Târgu Jiu) has been agreed with Repsol. The latter acquired a 49% working interest for the area deeper than 2,500 – 3,000 m of the onshore exploration blocks Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII, located south of the Southern and Eastern Carpathians.

The main goals of this new partnership are to evaluate the hydrocarbons potential of the four blocks and unlock the deep onshore exploration potential. OMV Petrom and Repsol are jointly evaluating the data obtained during the already performed seismic programs to determine exploration drilling opportunities.

In the Adjud and Urziceni East blocks, which are under joint venture with Hunt Oil, the partners have agreed on the drilling program scheduled for 2014.

Production

In 2013, Petrom produced in Romania 3.98 mn t crude oil including condensate and 5.19 bcm natural gas, the equivalent of 62.5 mn boe total oil and gas. The daily average equivalent production has reached 171.4 kboe/d, compared

to 170.5 kboe/d in 2012. A workover campaign commenced in early 2013 at four offshore wells has significantly contributed to the stabilization and gradual increase of hydrocarbon production during the second half of the year.

In 2013, the average crude oil production was 78.4 kboe/d, slightly higher compared to the level recorded during 2012, as the intensive drilling and workover program counterbalanced the production natural decline.

The domestic gas production was 92.9 kboe/d, slightly higher than last year due to the results of workover at the Totea fields and successful offshore workover campaigns.

Key projects in 2013

Petrom invests in new technologies and secondary recovery methods to redevelop mature fields in Romania in order to improve oil and gas recovery rates and stabilize its production levels. Presently, the average reserves recovery rate for the fields operated by the company stands at 25% for oil and around 49% for gas. The projects pursued mainly focus on field redevelopment using technologies such as water, steam and polymer injection, but can also encompass modernizing operations and performing additional drillings and workovers. Moreover, we target the reduction of technological and energy consumption and environmental impact.

Throughout the year, significant progress was made in the redevelopment of key fields. At the end of 2013, seven important projects passed the Final Investment Decision and entered the execution phase (Suplacu, Opișenești, Videle and Istria – oil, Mădulari, Burcioaia and Bulbuceni - gas). Among these, two key projects are among Petrom's most important oil fields located in the Northwest and Southeastern part of Romania, respectively. The Suplacu field redevelopment is a cyclical steam injection project using Horizontal Alternative Steam Drive with in-situ combustion. It is a mature oil field, in production for over 50 years, with daily production representing 10% of the total domestic oil production. The Suplacu field redevelopment project consists of 105 wells of additional drilling, implementation of the latest techniques to increase the recovery factor of

hydrocarbons, construction of a new gathering park and water treatment plant as well as the modernization of the gas combustion and air compression systems by 2015.

The Opișenești field redevelopment envisaged the drilling of 30 wells between 2009 and 2012, using water injection and high pressure injection stations.

The investment requirement for the projects under development and execution phase amounts to approximately EUR 550 mn over 2013-2015 and the cumulative proved and probable reserves of these projects are estimated at 100 mn boe. Other projects are in the appraisal phase, and they are expected to progress in the next years and reach implementation phase by 2017, with a cumulative recoverable resources of around 200-250 mn boe.

The FRDs are expected to maintain pace in 2014 and achieve further milestones: FRD Opișenești facilities to be put in function and turn on the water injection; FRD Tazlău pilot to be ready for start-up; FRD Suplacu to start execution of the Centralized Processing Facilities; FRD Independenta to kick-off drilling of 19 wells; FRD Videle G2 to start polymer equipment installation; FRD Balaria to start operation of the EOR (steam injection) pilot project; FRD Istria to kick-off drilling program; FRD Bulbuceni to start works execution.

Additionally, capitalizing on opportunities identified during Multidisciplinary Asset Reviews (MARs) in 2012, two additional FRDs have been developed closer to execution.

In 2013, these events have continued and eight more MARs took place. The initiatives are expected to develop, gradually mature and lead to additional FRDs. With regard to the Near Field Opportunities (NFO), we have managed to finalize the drilling of five NFO wells. The existing 3D seismic planning is also going to lead to new opportunities and will help secure Petrom's future development.

Total water injection has increased in 2013 versus 2012 by 4.6%. The cumulative oil production from projects using water injection and thermal recovery methods (steam injection and in-situ combustion) accounted for 25% of total domestic oil production in 2013.

Redevelop mature fields in Romania

Water injection increased by 4.6%

Partnerships with international companies for production enhancement (PECs)

In the field development of Totea deep, we drilled a development well, which entered into experimental production at the end of December, contributing to the average total production in 2013 of ~ 5,000 boe/d. Within the Well Engineering program, in 2013 have been drilled 169 new wells versus 118 wells in 2012, which is an important achievement. A step change was made to improve the drilling activity planning and new initiatives and technologies were tested to deliver better and more efficient wells.

Production enhancement contracts

In order to execute its strategy of optimizing the portfolio of existing assets, since July 2010 Petrom has entered into partnerships with reputed international companies for production enhancement. The partnerships with Petrofac, PetroSantander and Expert Petroleum are governed by Production Enhancement Contracts (PECs) referred to as PECȚicleni, PECTurnu and PECTimiș covering in total 31 mature fields.

The PECs stipulate that the contractors will take over and finance the operations and, together with Petrom, commit to their future development in order to maximize production while improving efficiency. Petrom remains the sole titleholder of the concession contracts and the owner of the hydrocarbon production, the existing assets as well as of the rights and obligations as defined by the Petroleum Act. Also, Petrom supervises the operations and remunerates the contractor based on a service fee, which varies depending on the production delivered.

The safety performance of 2013 was in keeping with the norm with six LTIs recorded in Țicleni and no LTI recorded in either PECTurnu or PECTimiș. In order to improve the performance and ensure safe operations in PECȚicleni, a holistic Safety Performance Review is conducted for the whole asset focusing on safety culture as well as on systems and procedures.

In 2013, total production of PEC Țicleni and PECTurnu advanced to 7.2 kboe/d which, compared to 2010, means a 12% increase in production.

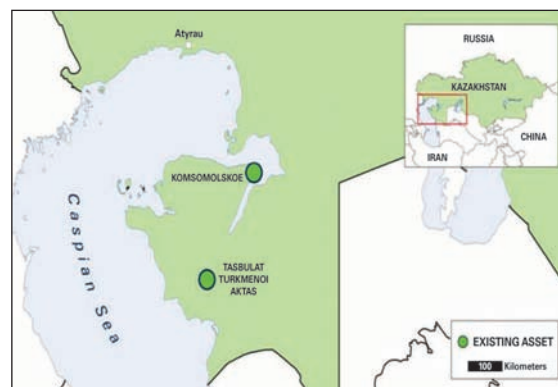
The PECȚicleni has contributed with 4.9 kboe/d while the PECTurnu added 2.3 kboe/d to the 2013 production. The total production of PECTimiș for the period April – December 2013 has increased to 2.4 kboe/d, 3% higher compared with the same period of 2012. Expert Petroleum took over the operations on April 1, 2013 after signing (in December 2012) a 15-year agreement for production enhancement services on 13 small mature fields, some of them situated in the Western part of Romania, near Timișoara being exploited for more than 40 years. Expert Petroleum is a Romanian company with international expertise in the oil and gas industry. The new contract follows the model of the previous production enhancement contracts.

International E&P operations

Currently, Petrom holds development and production licenses for the fields Tasbulat, Aktas, Turkmenoi (TOC fields) and Komsomolskoe (KomMunai field) in **Kazakhstan**. In 2013, the average oil and gas production in Kazakhstan has decreased by 8.3%, therefore reaching 11.2 kboe/d.

Throughout 2013, redevelopment drilling took place at the **TOC fields** with seven additional producing wells and two injector wells drilled. Half of the Turkmenoi pipeline has been replaced in order to avoid any potential leakages. The average production at the TOC fields amounted to 5.3 kboe/d in 2013, 1.8% lower than in 2012 which was mainly due to delays in tying-in the additionally drilled wells.

Location of Petrom fields in Kazakhstan



PECs registered good production performance

At the **Komsomolskoe field** the flotation unit has been installed, the roads have been built towards two old well locations in the Caspian marsh area and these wells have been reentered and prepared for testing. A decision has been made to drill additional injector wells in order

to support the reservoir pressure. In 2013, the average production in the Komsomolskoe field amounted to 5.9 kboe/d, 14.5% lower than in 2012 due to technical problems with the cooling unit and the need to replace the electric submersible pumps in several wells.

5.9 kboe/d
average
production of
Komsomolskoe

Production in 2013

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	mn cbm	mn boe	mn boe
Romania	3.98	28.62	5,187	33.92	62.54
Kazakhstan	0.45	3.48	107	0.62	4.10
Petrom Group	4.43	32.10	5,294	34.54	66.64

Group's portfolio proved reserves as of December 31, 2013

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	51.4	369.6	1,824.6	337.9	707.5
Kazakhstan	2.2	17	22.6	3.8	20.8
Petrom Group	53.6	386.6	1,847.2	341.7	728.3

Gas and Power (G&P)

Maintained strong position in the Romanian market

In the gas business, Petrom managed to maintain a strong position in the Romanian market, supplying more than one-third of Romania's estimated gas consumption in 2013. The power business generated a total net electrical output of 2.9 TWh, covering around 5% of the national electricity production.

G&P at a glance

	2011	2012	2013
Segment sales (RON mn)	3,627	4,143	4,315
EBIT (RON mn)	149	360	112
Clean EBIT (RON mn)	150	359	167
Capital expenditure (RON mn)	515	221	18
Gas sales volumes (mn cbm) ¹	5,055	4,841	4,893
Gas sales volumes (TWh) ¹	54.2	52.2	52.7
Net electrical output (TWh) ²	0.3	1.7	2.9

¹ Gas sales volumes include transfers within OMV Petrom S.A. (e.g. Brazi power plant)

² It includes net electrical output generated by the power plants during commissioning phase. The Dorobantu wind park commenced commercial operations on October 1, 2011 and the Brazi power plant – on August 1, 2012

The EBIT generated by the G&P business in 2013 decreased to RON 112 mn, 69% below the 2012 level, largely due to lower gas business contribution, as the upside from gas price liberalization is reflected in E&P starting February 2013. The power business contribution was marginally positive, still lower compared to 2012 due to decreasing demand and stronger competition, especially from renewables, which led to an average contraction of more than 28% in electricity market prices. The reported result was also impacted by special charges of RON (55) mn, mainly reflecting the RON (42) mn non-core assets impairment in Q1 2013 and the RON (13) mn special charge for decontamination activities related to the historical asset base in Q4 2013.

G&P investments (RON 18 mn) were significantly below 2012 (RON 221 mn), as the Brazi power plant started commercial operations in August 2012.

Legislative and regulatory updates

In terms of gas market liberalization, the roadmap enforced by the Government for the gradual increase of regulated domestic gas prices during 2013-2014 has been duly implemented.

The ANRE regulations setting up two different "gas baskets" (a pre-set mixture of domestic

and import gas) for households, on the one hand, and non-households on the other, continued to be applicable in 2013. The average import quota for households was 5% in 2013 (2012: 8%), while the import quota for non-households averaged 23% (2012: 34%). Starting September 2012, the Brazi power plant has been supplied exclusively with domestic gas. Starting April 25, the order approving the methodology for allocating domestically produced natural gas quantities to cover with priority the consumption on the regulated market, entered into force.

The liberalization of the power market progressed according to the official calendar. As of the end of 2013, the electricity market for industrial consumers was fully liberalized, while the liberalization for household consumers and small enterprises was in progress.

The Law no. 220/2008 regarding the support scheme for renewable power was amended pursuant to the Government Ordinance no. 57/2013. As such, starting July 1, 2013, out of the two green certificates allocated for each MWh of wind power produced, one will become eligible for sale after January 1, 2018. Furthermore, no green certificates will be received for the amount of energy delivered in excess of the hourly notified quantities by dispatchable units.

Gas

In 2013, the estimated Romanian gas consumption decreased by 8%, down to 12.5 bcm (2012: 13.6 bcm), due to a milder winter and lower consumption by the industrial sector. Petrom's gas sales volumes slightly increased by 1%, driven by the integrated gas supply to the gas fired power plant Brazi.



At the end of 2013, the regulated domestic gas price was RON 68.3/MWh for non-households and RON 49.8/MWh for household consumers, gradually increasing from RON 45.7/MWh at the beginning of the year, when the liberalization process started.

Centralized markets for natural gas are formally in place, with both OPCOM and the Romanian Commodities Exchange (BRM) now operating trading platforms. In time, with increasing liquidity, this can lead to the formation of a market-based price of natural gas within Romania.

A total volume of 266 mn cbm of natural gas was injected into storage by Petrom in 2013, compared to 618 mn cbm in 2012. The total volume of natural gas in storage owned by Petrom amounted to 160 mn cbm at the end of 2013, compared to 398 mn cbm at the end of 2012.

In 2013, Petrom sold its 99.99% stake in the non-core gas distribution company Petrom Distribuție Gaze S.R.L. to Ligatne S.R.L., in line with the company's strategy of optimizing downstream operations and focusing on core businesses.

Power

2013 was the first year of full commercial operations at the Brazi power plant, onstream

since August 2012. Due to its operational flexibility, the plant was able to operate over a broad load range, from ~200 MW to 860 MW with fast start-up and shutdown times, thus contributing to the stability of the national energy system. In 2013, the plant generated a net electrical output of 2.7 TWh, supplying 1.5 TWh to the regulated market and capturing approximately 9% from the balancing market, the second-largest balancing contribution in the country. In the context of reduced demand coupled with increased renewable generation, the power plant covered close to 5% of the total electricity production in Romania. In 2013, the net availability of the Brazi plant was 90%, reflecting the one-month planned shutdown for the installation of a gas treatment plant in April. With a net availability of 97%, the Dorobanțu wind park (45 MW) generated a net electrical output of 0.1 TWh in 2013, slightly higher compared to 2012. For the electricity produced and delivered to suppliers, OMV Petrom Wind Power S.R.L. was allocated 178,488 green certificates. Pursuant to the legislation in force, 32,297 of these green certificates will become eligible for sale after January 1, 2018.

According to data published by the National Institute of Statistics, the Romanian gross electricity production decreased by approximately 2% versus 2012, to 58 TWh, while the national electricity consumption contracted by approximately 5%, to 56 TWh. In 2013, Romania was a net exporter of electricity. The contraction in electricity consumption coupled with the increased production from hydro and renewable sources compared to 2012 led to a decrease of more than 28% in electricity prices on the Romanian day-ahead market, which averaged RON 156/MWh for base load and RON 197/MWh for peak load (2012: RON 217/MWh for base load and RON 275/MWh for peak load), according to data published by OPCOM.

Doljchim

During 2013, Petrom continued the dismantling and decontamination activities at Doljchim in compliance with environmental and safety standards, to prepare the site for potential alternative uses.

First year of full commercial operations for Brazi plant

Electricity prices decreased by more than 28%

Refining and Marketing (R&M)

Stabilized retail sales volumes in Romania

The Refining and Marketing business operated in a challenging market environment, with high international oil price levels, lower refining margins and subdued demand in the operating region. In Refining, the modernization program of Petrobrazi continued in 2013, with the commissioning of the coker upgrade, a new gas desulfurization and sulfur recovery unit (DGRS) as well as a new H₂ plant, with a positive impact on energy efficiency and environment. The refinery utilization rate reached 90%, the highest level since privatization, while energy consumption continued to improve. The program of optimizing the fuels terminals in Romania further progressed with the revamp of the Bacău asset.

In Marketing, the Group's market share was maintained in the retail business in the operating region, while in Romania retail sales volumes stabilized for the first time since 2009. Commercial sales reflected a negative trend in all products except gasoline. Marketing campaigns focused on increasing brand awareness and customer loyalty.

R&M at a glance

	2011	2012	2013
Segment sales (RON mn)	18,957	21,750	19,308
EBIT (RON mn)	(187)	138	386
Clean CCS EBIT ¹	152	31	374
Capital expenditure (RON mn)	980	899	827
Total refined product sales (kt) ²	5,234	5,004	5,222
thereof Marketing sales volumes (kt) ³	4,066	3,829	3,617
thereof: Gasoline	949	879	884
Diesel	2,293	2,258	2,259
Kerosene/Jet fuel	222	186	220
HFO	196	132	85
Number of filling stations	793	798	785

¹ Adjusted for exceptional, non-recurring items; clean CCS figures exclude special items and inventory holding effects (current cost of supply - CCS-effects) resulting from R&M

² Include all products sold by Petrom Group

³ The figure excludes export sales which are included in total refined product sales

Third year after privatization with positive clean CCS EBIT

Clean CCS EBIT in R&M increased to RON 374 mn compared to RON 31 mn in 2012, due to incremental improvements in product yield structure, a higher refinery utilization rate, a good marketing performance and strict cost management. 2013 was the third year after privatization with a positive operating profit for R&M, thus reflecting the company's commitment towards the ongoing modernization program to improve yield structure and energy efficiency. Clean CCS EBIT is stated after eliminating CCS effects of RON (24) mn and net special charges of RON (36) mn. **Reported EBIT** came in at RON 386 mn, compared to RON 138 mn in 2012.

In terms of **investments**, in Refining, 2013 marked another important step in delivering the Petrobrazi modernization program, with coker unit upgrade commissioned in January 2013, whilst the new gas desulfurization with sulfur recovery unit has been operational since mid of the year. The new hydrogen plant, which will be operated under an "over-the-fence" ^{iv} concept was commissioned end of the year, enabling Petrobrazi refinery to benefit from high purity hydrogen needed in all hydrotreating units. In 2013, Bacău terminal reconstruction was finalized, with the estimated start of commercial operations by the end of Q1 2014. In addition to the modernization projects, investments in

^{iv} Built and operated by third party

environmental, legal compliance and energy efficiency projects were made. The 2013 investments in the Petrobrazî refinery amounted to approximately EUR 150 mn, mostly related to the EUR 600 mn modernization program envisaged during 2010-2014. The next steps entail the upgrade of the fluid catalytic cracking and diesel hydrotreater conversion units, to be commissioned during the 30-day planned shutdown and turnaround scheduled starting end of May 2014.

Marketing investments focused on optimizing

the current filling stations portfolio and three newly-built filling stations in key locations. Upgrades were performed in a number of Petrom and OMV filling stations mainly to improve the facilities.

The **indicator refining margin**^ν decreased to USD (2.83)/ bbl, from USD (1.39)/ bbl in 2012 due to lower margins for main products (gasoline, diesel, HFO). Nevertheless, the lower refining margins and the high crude price environment were compensated by improvements in energy efficiency and yield structure.

Improvements in energy savings and yield structure

Crude oil processed (kt)¹

	2011	2012	2013
Petrobrazî ²	3,567	3,146	3,771

¹ Including condensate

² Nominal capacity of 4.5 mn t/y until Q2 2012. Starting Q3 2012 it was streamlined to 4.2 mn t/y

Production (kt)

	2011	2012	2013
Gasoline	1,105	946	1,210
Diesel	1,184	1,035	1,266
Kerosene/Jet fuel	195	144	185
HFO	394	350	366
LPG total	205	162	221
Petroleum coke	216	196	240

Sales

The turnover of the marketing business reflected the oil price environment, stable retail volumes and lower commercial sales. Petrom Group's total marketing sales amounted to 3,617 kt in 2013, 6% lower compared to 2012, driven mainly by lower commercial sales due to unfavorable market conditions.

Group retail sales were similar to the level of the previous year, reaching 3,108 mn liters, as higher sales volumes in Bulgaria were partially offset by decreased volumes in Serbia. Retail sales in the domestic market reached 2,405 mn

liters in 2013, in line with last year.

Group commercial sales amounted to 1,138 kt, 15% lower against 2012, with lower volumes in all products except gasoline. In Romania, commercial volumes stood at 625 kt, 27% below the previous year's level (2012: 857 kt). To a relatively large extent, the decrease is attributable to the Petrom LPG divestment, which was completed in January 2013, but also due to portfolio optimization. To counter-balance the decline in sales, tailor-made concepts were optimized for the agricultural, mining and construction sectors, as well as for the road and

Lower sales of all products except gasoline

^ν Indicator refining margin is based on the international quotations for products (Augusta) and Urals crude and a standardized yield set typical for Petrom's refineries. Actual refining margins realized by Petrom may vary from the Petrom indicator refining margin as well as from the market margins due to factors including a different crude slate, product yield and operating conditions

26% market share in our operating region

sea transport business.

Total Romanian market share (retail and commercial sales) decreased compared with 2012, to 34% (2012: 36%) mainly as a result of commercial business and product portfolio optimization. Overall market share in the operating region was broadly at the same level as last year, reaching 26%. Margins remained under pressure, due to the high crude price environment.

In 2013, total non-oil business turnover improved by 3% compared to last year, following the stable trend in fuel sales, also reflecting the benefits of the single logistics provider in Romania, Bulgaria and Serbia.

Operational highlights 2013

Refining

In 2013, the main focus was on making progress with the Petrobrazi modernization program, important milestones being achieved by commissioning the coker unit upgrade at the beginning of the year, putting in function the new sulfur recovery unit mid of 2013, as well as advancing with fluid catalytic cracking and diesel hydrotreater units upgrade. A new H₂ plant was also put in function in December 2013, in order to contribute to the overall refinery yields improvement.

The Petrobrazi refinery utilization rate increased to 90% in 2013 as compared to 2012 (73%), when the six-week-long planned refinery shutdown burdened the refinery utilization rate. The utilization rate also reflected the nameplate capacity adjustment to 4.2 mn t/y, effective since July 2012.

Supply and Logistics

In November 2013, the construction phase at the Bacău fuel terminal revamp project, which was initiated in September 2012, was finalized. This is the fourth commissioned terminal in the last four years. Located in the north-east part of Romania (Bacău City), with a surface of 50,000 m² and a storage capacity of 19,000 m³, the project is part of a modular design concept which will improve the performance by maximizing service life and reducing operational costs.

The construction of Bacău fuel terminal was finalized

The operations are expected to start in the first quarter of 2014, still subject to operational permits.

This project is part of a broad investment program of six modern terminals in Romania: three new terminals (Jilava, Brazi, Işalniţa - all of them in operation) and three revamped terminals.

Due to the high standards used for the construction and equipment, the four terminals which were finalized by the end of 2013 (Jilava, Brazi, Işalniţa and Bacău) are among the most modern and safest fuel terminals in Europe.

Marketing

In marketing, the main focus in 2013 was to maintain market share in the retail business in a challenging market environment while increasing efficiency through integration within downstream activities.

To consolidate its market position in Romania, the marketing business unit further pursued its two brand retail strategy - the international premium brand, OMV, and the national Romanian brand, Petrom, positioned as value-for-money brand. Stable retail volumes combined with the optimization of the filling station portfolio led to slightly higher average fuel sales per filling station. In Romania, retail volumes remained the same compared to the previous year, at 4.41 mn liters per station, while on Group level, the average throughput per station slightly increased to 3.89 mn liters in 2013 (2012: 3.88 mn liters per station).

In Romania, in order to increase brand awareness and customer loyalty, the "Romanian Achievements Collection" was launched in Petrom filling stations, encouraging purchase of Romanian products.

Moreover, we focused on providing best-in-class customer services as well as further diversifying the existing range of customer services (e.g. money transfer, car insurances, utilities payments, postal services) within OMV filling stations functioning under the Service Corner concept. Furthermore, a significant number of Petrom filling stations were further revamped with a new refreshed outlook, together with an effective communication campaign which led

to an increase in the Petrom brand awareness in the last quarter of 2013.

The commercial business unit within Marketing continued to optimize its operations in a challenging market environment with a focus on its business-to-business activities. The multi-channel approach (using different channels to reach our commercial customer target groups) has been optimized for the diesel and aviation business in Romania, strengthening sustainable profitability.

Moreover, in the aviation fuel business, Petrom managed to successfully enter the airport in Sofia (Bulgaria) in the beginning of 2013 to further enhance the offer to international customers.

Affiliated companies

In January 2013, the selling contract between Petrom and Crimbo Gas International for the 99.99% stake held in Petrom LPG SA was completed. Following this transaction, Petrom

exited the bottling and distribution market while it continued to produce LPG and sell gas cylinders and auto gas through its filling stations.

Regarding the filling stations network, Petrom pursued further optimization of its portfolio, mainly in the **Republic of Moldova**. **OMV Bulgaria** showed very good sales evolution, which led to a higher market share while in **Serbia**, the sales volumes dropped, reflecting lower purchasing power and the difficult economic environment.

Filling stations network optimization

Prices

Petrom fuel prices have a dynamic evolution based on international fuels quotations, namely Platts Mediterranean, as well as competition in the market. In addition, prices are influenced by fiscal policy and the exchange rate.

As the volatility of quotations is extremely high and an immediate reflection in product prices would make the market unstable, Petrom fuels prices only reflect the trend, not the peaks.

Number of filling stations per country

	2011	2012	2013
Romania	545	546	545
Republic of Moldova	94	98	86
Bulgaria	93	93	93
Serbia	61	61	61
Total	793	798	785





Report of the governing bodies

Report of the Supervisory Board

Transparency and accountability towards our shareholders

Core activities

OMV Petrom S.A. (hereinafter also referred to as "Petrom" or the "Company") is an integrated oil and gas company operating mainly in Romania, but also indirectly via its subsidiaries in Kazakhstan (exploration and production activity) and in the neighboring countries of Bulgaria, the Republic of Moldova and Serbia (marketing activity). OMV Petrom S.A. is also the parent company of all companies consolidated within Petrom Group. A detailed structure of the consolidated companies in Petrom Group as of December 31, 2013 is presented under the corresponding note to the consolidated financial statements, included in the last chapter of this report.

Aim of the report

Transparency and accountability towards our shareholders is a well-established practice that has been put in place in the Company. Hence, the Supervisory Board continued to devote close attention to the strategic focus and business performance of the Company in all areas of activity during 2013.

The following report gives an overview with regard to the Supervisory Board's main points of interest during the year under review. In addition to this report, the shareholders, as well as other stakeholders have various means to access relevant information about the Company by:

- ▶ visiting our corporate website, www.petrom.com, which is continuously updated;
- ▶ contacting the Company directly - shareholders and equity analysts can address their requests to our Investor Relations department;
- ▶ asking questions at the General Meetings of Shareholders, concerning the items to be debated during such meetings.

Corporate governance

A transparent decision-making process, relying on clear and objective rules, is a prerequisite for shareholders' confidence in the Company. It also contributes to the protection of shareholders' rights, improving the overall performance of the Company, by offering a better access to capital and risk mitigation.

The Company has always conferred great importance upon the principles of good corporate governance and adhered to the principles laid down in the Code of Corporate Governance issued by the Bucharest Stock Exchange.

In accordance with the aforementioned principles, the Company is managed in an atmosphere of openness, based on honest discussions between the Executive Board and the Supervisory Board, as well as within each of these corporate bodies. Members of the aforementioned corporate bodies have always paid due attention to their duty of care and loyalty. Hence, the Executive Board and the Supervisory Board have passed their resolutions as required for the welfare of the Company, primarily in consideration of the interests of shareholders and employees.

Governance structures

Since April 2007, the Company is managed in a two-tier system, by the Executive Board, which runs the daily operations under the supervision and control of the Supervisory Board.

In the two-tier system, the management of the Company falls under the competence of the Executive Board, which manages the business of the Company according to the relevant laws and the Company's Articles of Association.

In accordance with the statutory provisions, by virtue of the mandate granted by the Company's shareholders, the Supervisory Board has the power to control the management of the Company. The main duties set forth under the Company Law for the members of the Supervisory Board are: (i) to exercise the continuous supervision of the activity of the Executive Board; (ii) to appoint and to revoke the members of the Executive Board; (iii) to verify the compliance of the management of the Company with the laws, the Company's Articles of Association and the resolutions of the General Meeting of Shareholders; (iv) to present a report regarding its supervision activity at least once a year to the General Meeting of Shareholders; (v) to represent the Company in relation with the Executive Board.

The members of the Executive Board and of the Supervisory Board are under the obligation to fulfill their responsibilities and exercise their powers in the best interest of the Company and all its shareholders.

Supervisory Board members

In accordance with the Company's Articles of Association, the Supervisory Board of the Company comprises nine members.

Until April 28, 2013 the Supervisory Board consisted of the following members: Gerhard Roiss (President of the Supervisory Board), David Charles Davies (Deputy President of the Supervisory Board), Jaap Huijskes, Manfred Leitner, Hans-Peter Floren, Gheorghe Ionescu, Constantin Dascălu, Joseph Bernhard Mark Mobius and Riccardo Puliti.

Due to the expiration of the mandate of the Supervisory Board members on April 28, 2013, the Ordinary General Meeting of Shareholders held on April 22, 2013 resolved upon the appointment of the members of the Supervisory Board for a four-year mandate starting April 28, 2013. As such, the following members of the Supervisory Board were appointed: Gerhard Roiss (President of the Supervisory Board), David Charles Davies (Deputy President of the Supervisory Board), Manfred Leitner, Hans-Peter Floren, Jaap Huijskes, Joseph Benhard Mark Mobius, Lucian-Dan Vlădescu, George Băeșu and Riccardo Puliti.

Following Jaap Huijskes's waiver of the mandate starting September 18, 2013, Johann Pleininger was appointed as interim member of the Supervisory Board until the next Ordinary General Meeting of Shareholders.

As required by Company Law, none of the Supervisory Board members holds an executive position within the Company.

Executive Board members

The Executive Board of the Company comprises five members as of the date of this report.

Until September 1, 2013, the Executive Board of the Company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Andreas Matje (Executive Board member and Chief Financial Officer), Johann

Pleininger (Executive Board member in charge of Exploration and Production), Neil Anthony Morgan (Executive Board member in charge of Refining and Marketing), Cristian Nicolae Secoșan (Executive Board member in charge of Gas and Power).

Following Johann Pleininger's waiver of his mandate, Gabriel Selischi was appointed as Executive Board member in charge of Exploration and Production as of September 1, 2013.

Supervisory Board activity during 2013

In 2013, the Supervisory Board thoroughly reviewed the position and prospects of the Company and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We coordinated with the Executive Board on important management matters, monitored their work, and we were involved in the Company's key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

During the year under review, the Supervisory Board members met six times in person.

Moreover, for specific and particularly urgent plans and projects arising between the actual meetings, the Supervisory Board submitted their approval in writing on four occasions.

All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board in 2013. The average participation rate was over 90%.

In line with the Collective Labor Agreement, invitations to attend the Supervisory Board meetings were extended to trade union representatives and the meeting agenda and related documents were provided in a timely manner in that respect.

At our meetings, the Executive Board duly provided detailed information, both verbally and in writing, on issues of fundamental importance for the Company, including its financial position, business strategy, planned investments and risk management. We discussed all transactions significant for Petrom in the plenary meetings, based on the reports of the Executive Board.

Average participation rate of over 90% to the Supervisory Board meeting

The high frequency of both plenary and committee meetings has facilitated an intensive dialog between the Executive Board and the Supervisory Board. In addition, the President of the Executive Board has constantly informed the Supervisory Board of current developments in the Company's business and significant transactions.

On **February 4**, we were informed by the Executive Board on the details and impact of the Government Ordinance no. 7/2013 for establishing a tax on incremental revenues derived further to the price deregulation in the gas sector as well as of the Government Ordinance no. 6/2013 for establishing certain measures for taxing the exploitation of natural resources, others than natural gas.

March 21 Supervisory Board meeting

At our regular meeting of March 21, we received reports and were consulted by the Executive Board on market and business developments as well as on corporate developments that had occurred since the previous meeting.

During the Supervisory Board meeting of March 21, we thoroughly discussed the 2012 annual consolidated financial statements as well as the respective management reports.

The 2012 annual consolidated financial statements were duly adopted following the recommendation of the Audit Committee, which had conducted an in-depth examination of the documents together with the auditors and based also on the auditors' letter to the management. Additionally, during the meeting we discussed and decided, based on the analysis and proposal of the Audit Committee, the appointment of Ernst & Young Assurance Services S.R.L. as financial auditor of the Petrom Group. Based on the results achieved in 2012 and the good gearing ratio, another topic on which we focused during the meeting was the distribution of dividends, where we approved the management proposal to distribute the amount of RON 1,586 mn as dividends.

On March 21, we also took notice of Johann Pleininger's waiver of his mandate as Executive Board member starting September 1, 2013 and, in full compliance with the applicable regulations, we appointed Gabriel Selischi

as Executive Board member in charge of Exploration and Production starting September 1, 2013.

Moreover, during the same meeting, we also approved the convening of the Ordinary General Meeting of Shareholders on April 22, 2013 and the related materials. In addition, we approved in principle the settlement with Raiffeisen Evolution concerning the exit from a Pre-Sale Purchase contract for several plots of land.

April 22 Supervisory Board meeting

At our regular meeting of April 22, we received reports and were consulted by the Executive Board on market and business developments as well as on corporate developments that had occurred since the previous meeting.

We also thanked the Supervisory Board members whose mandates ceased as of April 28, 2013 for their constructive work and commitment towards the Company during their mandates and also welcomed the members of the Supervisory Board appointed by the Ordinary General Meeting of Shareholders held on April 22, 2013, for a new mandate of 4 years as of April 28, 2013. During the same meeting, the first phase of Istria field redevelopment and exploration project was approved.

April 28 Supervisory Board (via circulation)

On April 28, via a circular motion, we approved the reappointment of Gerhard Roiss as President of the Supervisory Board, following the new mandate granted to the Supervisory Board.

June 14 Supervisory Board meeting

At this regular meeting, we received reports and were consulted by the Executive Board on market and business developments as well as on corporate developments occurred since the previous meeting.

During this meeting, the following members of the Audit Committee were appointed: David Charles Davies (President of the Audit Committee), Manfred Leitner (Deputy President), Riccardo Puliti and George Băeșu.

On the same meeting the Supervisory Board resolved upon some organizational changes in the G&P division as well as upon two projects of the E&P division.

**Dividends in
amount of RON
1,586 mn for 2012**

September 10 Supervisory Board (via circulation)

On September 10, via a circular motion, the Supervisory Board approved the acquisition of a new entity incorporated in Austria with the purpose of conducting business in Ukraine.

September 17 Supervisory Board meeting

At its meeting on September 17, the Supervisory Board reviewed the reports received from the Executive Board and we were consulted with regard to market and business developments as well as the recent corporate developments of the Company.

The Supervisory Board took notice of Jaap Huijskes's waiver of the mandate as member of the Supervisory Board and appointed Johann Pleininger as interim member of the Supervisory Board starting September 18, 2013 until the next Ordinary General Meeting of Shareholders.

Likewise, on the same day the Supervisory Board approved some investments relating to the Company's envisaged activities in the Black Sea.

During the same meeting, the Supervisory Board was informed of the planned Investor Relations program for the next year.

November 26 Supervisory Board meeting

During this meeting, the Supervisory Board reviewed the reports received from the Executive Board and we were consulted with regard to market and business developments as well as to corporate developments of the Company occurred since the previous meeting.

The Supervisory Board approved the creation and implementation of an organizational ombudsman office, under the name of "PetrOmbudsman". This structure will function as a supplementary communication channel, with the aim to assist employees in determining the options to amicably resolve conflicts, problematic issues or concerns. The PetrOmbudsman is an independent, neutral, informal and confidential resource who acts according to the International Ombudsman Association's Standards of Practice and Code of Ethics.

In **December** 2013, two Supervisory Board meetings took place. In these meetings via

circular motions we approved further steps to develop business in Ukraine and the budget for 2014. The Supervisory Board was also informed with regard to the details of the Government Ordinance no. 102/2013 published on November 15, 2013 which introduced a new tax of 1.5% on the value of special constructions.

The Audit Committee

An Audit Committee comprised of four Supervisory Board members is established to provide assistance to the Supervisory Board in the area of internal control and financial reporting. In line with Company Law, the Audit Committee also includes members that have the necessary financial, audit and accounting expertise.

As of the date of this report, the four members of the Audit Committee are: David Charles Davies, Manfred Leitner, George Băeșu and Riccardo Puliti.

In 2013, the Audit Committee met three times. On these occasions, the committee reviewed and prepared the adoption of the annual accounts and the proposal for the allocation of profit.

In addition, the Audit Committee supervised Petrom's risk management process and its result and monitored the reports delivered by internal auditors including internal audit plan for 2014. The committee also prepared a proposal of an independent financial auditor to the Supervisory Board and to the General Meeting of Shareholders.

External auditor

Ernst & Young Assurance Services S.R.L. (EY) was Petrom Group's independent auditor in 2013. A motion for the reappointment of Ernst & Young as Petrom Group's auditor will be submitted to the next Ordinary General Meeting of Shareholders.

Annual financial statements

EY audited the 2013 financial statements, reviewed the conformity of the annual report with the financial statements and issued an unqualified audit opinion.

The financial statements and audit reports were presented to the Supervisory Board for examination in a timely manner. The auditors

**Three meetings
of the Audit
Committee
in 2013**

**EY audited the
2013 financial
statements**

attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the financial statements with the auditors and examined them carefully. The Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual consolidated financial statements, including the management reports.

The consolidated financial statements were approved in the Supervisory Board meeting of March 25, 2014 in line with the Audit Committee's recommendation and will further be submitted for discussion in the General Meeting of Shareholders to be held on April 29, 2014.

Financial reporting in compliance with international standards

Petrom prepares Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union - presented within this report.

Separate financial statements of the Company for the year ended December 31, 2013 are also prepared in accordance with IFRS, as the Ministry of Finance Order no. 1286/2012 stipulates that Romanian listed companies must prepare financial statements in accordance with IFRS as endorsed by the European Union, starting with the year ended December 31, 2012.

Dividend

The Supervisory Board has accepted the Executive Board's proposal to the General Meeting of Shareholders to pay a dividend of RON 0.0308 per share, corresponding to a payout ratio of 36% of the net profit recorded in 2013. The proposal is subject to the approval of the forthcoming General Meeting of Shareholders on April 29, 2014.

Corporate Governance

The Supervisory Board also approved the Directors' Report which includes the Corporate Governance Report. Petrom adheres to and complies with the vast majority of the provisions set forth in the Corporate Governance Code issued by the Bucharest Stock Exchange. The Corporate Governance Code's requirements are

broader than the legal requirements for listed companies. The "Comply or Explain" Statement is included in the Corporate Governance chapter of the Annual Report.

We thank our shareholders for their confidence in Petrom. The Company continued its successful path of development in 2013 through difficulties caused by the effects of the fragile global economic environment.

To this end, the Supervisory Board would like to convey their appreciation to the Executive Board, managers, employees and trade union representatives for their commitment and hard work. They successfully met the challenges of a demanding 2013 and achieved excellent results. We would also like to show our appreciation to the clients and business partners of our Company. Thanks to the sound operational performance and financial position, the Supervisory Board is confident that the Company is best positioned to surmount further challenges ahead and unlock its full potential in the years to come.

Bucharest, March 25, 2014



Gerhard Roiss
President of the Supervisory Board

**Dividend
proposal of RON
0.0308 per share
for 2013**

Directors' report

Petrom Group financials (RON mn)

	2012	2013	Δ (%)
Sales revenues	26,258	24,185	(8)
Earnings before interest and taxes (EBIT)	5,662	5,958	5
Net income	3,946	4,824	22
Net income attributable to stockholders	3,953	4,821	22
Cash flow from operations	7,185	8,048	12
Capital expenditures	4,930	5,303	8
Employees at the end of period	21,650	19,619	(9)

In 2013, Petrom generated a strong operating result (EBIT) of RON 5,958 mn, 5% above previous year's level, mainly due to higher contribution from refining and strict overall cost management, partially offset by lower spark spreads. Net special charges totaled RON (33) mn, mainly related to non-core asset impairments. The net financial result reached RON (259) mn, compared to RON (836) mn registered in 2012, the latter reflecting special charges for alleged late payment interest following the receipt of the preliminary result of the fiscal review for the years 2009 and 2010. The negative effects of receivables discounting as well as FX exposure related to EUR-denominated bank loans also affected the financial result in 2012.

The Group's effective corporate tax rate was 15% (2012: 18%) while net income attributable to stockholders advanced 22% versus the previous year. The return on average capital employed^{vi} (ROACE) significantly increased to 19% (2012: 16.5%) and the gearing ratio further improved to 1% from 7% in 2012, due to very good cash flow from operations.

In 2013, we remained the largest investor in the energy sector in Romania with capital expenditures of RON 5,303 mn, 8% higher than in 2012, mostly dedicated to our E&P projects.

In **E&P**, for the first time since privatization, we successfully achieved a slight increase in hydrocarbon production in 2013 in Romania, while at Group level, production was broadly stable. The natural decline of our mature hydrocarbon fields was counterbalanced by the good results of optimization initiatives including

workover activities and drilling of new wells. Production in Kazakhstan dropped as an effect of technical constraints in the Komsomolskoe and TOC fields, which occurred mainly in the second half of the year.

In exploration, we have operated and finalized the largest 3D seismic campaign in the Romanian sector of the Black Sea, which included 6,000 km² in Neptun deep block, explored in joint venture with ExxonMobil Exploration and Production Romania Limited, and 1,600 km² in the shallow water of the block which is fully operated by Petrom. Our focus on exploring the potential of the block and its neighboring areas in Romania were reflected in high exploration expenditures of RON 453 mn. Further steps were made to secure additional exploration licenses in the Black Sea deep water areas adjacent to the Neptun block, in the Romanian sector (Midia block) and Ukrainian sector (Skifksa block).

Onshore, we pursued the appraisal drilling of the Totea Deep development, which is the most important onshore gas discovery in Romania in the last years. In the middle of 2013, a workover job has been done as well as an upgrade of the permanent facilities, which led to incremental production. The production of Totea Deep Development has averaged 5 kboe/d in 2013. Farm-out of the deep part of the onshore Peri-Carpathian licenses to Repsol has been concluded and Petrom together with Repsol are jointly evaluating the seismic data to determine exploration drilling opportunities and program. In **G&P**, Petrom's gas sales volumes reached 4.9 bcm, supplying more than one-third of Romania's

The largest 3D seismic campaign in the Romanian sector of the Black Sea

^{vi} For definitions of these ratios please refer to pages 73-74, section "Abbreviations and definitions"

Net electrical output of 2.9 TWh

estimated gas consumption in 2013. In line with our strategy to optimize downstream operations, we exited the gas distribution to end consumers by divesting Petrom Distribuție Gaze S.R.L. in 2013. The power business generated a total net electrical output of 2.9 TWh (accounting for 5% of the national electricity production), mostly from the Brazi power plant, which had its first full year of commercial operation in 2013.

In **R&M**, 2013 was the third year after privatization with a positive Clean CCS EBIT result, significantly higher than the 2012 level, the latter reflecting the effect of the six-week planned shutdown of the refinery in 2012 and challenging market conditions. The indicator refining margin deteriorated mainly due to lower gasoline and middle distillates cracks which were only partially

offset by lower technological consumption. We continued the modernization program of the Petrobrazi refinery, and upgraded the Coker unit, put in function the new gas desulfurization with sulfur recovery unit and advanced with upgrades to the Fluid Catalytic Cracking and Diesel Hydrotreater units.

The utilization rate for Petrobrazi refinery stood at 90%, a record high level since privatization. Last year, we also finalized the reconstruction of Bacău fuel terminal which will be put into operation in Q1 2014.

In Marketing, total sales volumes decreased by 6% compared with 2012, broadly in line with the market demand in our operating region which experienced a weak economic environment. The Group market share stood at 26%, in line with the previous year.

Earnings before interest and taxes (EBIT)

EBIT (RON mn)	2012	2013	Δ (%)
Exploration and Production ¹	5,467	5,529	1
Gas and Power	360	112	(69)
Refining and Marketing	138	386	180
Corporate and Other	(117)	(97)	(17)
Consolidation: elimination of intercompany profits	(185)	29	n.m.
Petrom Group reported EBIT	5,662	5,958	5

¹ Excluding intersegmental profit elimination shown in the line "Consolidation"

In **E&P, EBIT** increased by 1% compared to 2012, to RON 5,529 mn, due to lower special charges. The 2012 result included special items totaling RON (287) mn, mostly related to a legal case in Kazakhstan for uncollected receivables.

Total Group hydrocarbon production in 2013 was broadly stable compared to 2012 to 182.6 kboe/d or 66.6 mn boe. **Total oil, gas and NGL production in Romania** totaled 62.5 mn boe, 0.26% higher compared to the previous year. Domestic crude oil production was 28.6 mn bbl, stable versus 2012, as the projects and workover programs compensated the effects of natural decline. Domestic gas production reached 33.9 mn boe, 1% higher compared to 2012. **Oil and gas production in Kazakhstan** decreased

by 9% to 4.1 mn boe, as an effect of technical constraints. **Group sales volumes** were similar to the 2012 level.

In **G&P, EBIT** decreased by 69% compared to 2012, to RON 112 mn, largely due to a lower gas business contribution, as the upside from gas price liberalization is reflected in E&P starting February 2013. The **power** business contribution also declined compared to 2012, due to decreasing demand and stronger competition, especially from renewables, which led to a contraction of more than 28% in electricity market prices. The 2013 reported result was impacted by special charges of RON (55) mn, mainly reflecting the RON (42) mn non-core

Group hydrocarbon production stable vs. 2012

assets impairment in Q1 2013 and the RON (13) mn special charge for decontamination activities related to the historical asset base in Q4 2013.

In **R&M**, **EBIT** significantly improved to RON 386 mn compared to RON 138 mn in 2012, mainly helped by a strong marketing performance. The **indicator refining margin** decreased to USD (2.83)/bbl, from USD (1.39)/bbl in 2012 reflecting

lower margins for the main products. The Petrobrazi refinery **utilization rate** increased to 90%, as compared to 73% in 2012, as the latter was impacted by the planned shutdown in Q2 2012.

EBIT in the **Corporate and Other** (Co&O) segment, amounting to RON (97) mn, improved by 17% in 2013 compared with RON (117) mn in 2012.

90% refinery utilization rate

Notes to the income statement

Summarized income statement (RON mn)

	2012	2013	Δ (%)
Sales revenues	26,258	24,185	(8)
Direct selling expenses	(696)	(646)	(7)
Cost of sales	(17,306)	(15,485)	(11)
Other operating income	187	298	60
Selling and administrative expenses	(1,415)	(1,284)	(9)
Exploration expenses	(328)	(423)	29
Other operating expenses	(1,038)	(687)	(34)
Earnings before interest and taxes (EBIT)	5,662	5,958	5
Net financial result	(836)	(259)	(69)
Taxes on income	(880)	(875)	(1)
Net income	3,946	4,824	22
Less net income / (loss) attributable to non-controlling interests	(7)	3	n.m.
Net income attributable to stockholders of the parent	3,953	4,821	22

Petrom is an integrated oil and gas company. As oil produced by the E&P segment is mainly processed at the Petrobrazi refinery, the R&M business segment represents the largest share of the Group's consolidated sales.

Compared to 2012, **consolidated sales revenues** decreased by 8% to RON 24,185 mn mainly due to lower crude and petroleum products sales that more than offset higher sales of electricity in 2013. After the elimination of intra-group transactions of RON 12,113 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 1,108 mn or about 5% of the Group's total sales revenues (2012: RON 920 mn). After elimination of intra-group sales, the **G&P** segment's contribution was RON 3,880

mn or approximately 16% of total sales (2012: RON 3,696 mn). Sales to external customers in the **R&M** segment amounted to RON 19,128 mn or 79% of total consolidated sales (2012: RON 21,587 mn).

Sales to external customers are split by geographical areas on the basis of where the risks and benefits are transferred to the customer. Romania represents the Group's most important **geographical market** with sales of RON 18,964 mn or 79% of the Group's total sales (2012: RON 20,534 mn). Sales in the rest of Central and Eastern Europe were RON 4,222 mn or 17% of Group sales (2012: RON 4,485 mn) and sales revenues in the rest of the world (Kazakhstan) decreased to RON 1,000 mn,

Sales in Romania account for 79% of Group's total sales

**Cost of sales
decreased by 11%
compared to 2012**

representing 4% of total sales revenues (2012: RON 1,239 mn).

Direct selling expenses followed the same decreasing trend as sales revenues, with a 7% reduction from RON 696 mn in 2012, to RON 646 mn in 2013. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, decreased by 11% to RON 15,485 mn. This was mainly due to decreased cost of sales for traded goods being higher in 2012 due to the impact of the Petrobrazi refinery shutdown, partially offset by higher impairments and new taxes in 2013. A 60% increase in **Other operating income** relates mainly to damages received in relation with termination of land sales agreements and revenues from insurance indemnities within Power business. **Selling and administrative expenses** of RON 1,284 mn decreased by 9% compared to last year mainly in connection with the sale of the Petrom LPG subsidiary at the beginning of 2013 and to optimization of retail filling station network.

Exploration expenses increased by 29% to

RON 423 mn, mostly due to relinquishment of some exploration blocks and higher provisions for unsuccessful exploration wells.

Other operating expenses decreased by 34% compared to the 2012 value of RON 1,038 mn, the latter being impacted by higher expenses related to uncollected receivables and higher restructuring provisions.

The net financial result shows a loss of RON (259) mn and has improved in comparison with loss of RON (836) mn in 2012, when it was negatively influenced by special charges of RON (209) mn for alleged late payment interest following the receipt of the preliminary results of the fiscal review for the years 2009 and 2010 concluded in Petrom in 2012 and by discounting effect of receivables.

Taxes on income amounting to RON 875 mn in 2013 were slightly lower compared to 2012, being positively impacted by deferred tax asset in the Kazakh subsidiaries. Consequently, the effective tax rate decreased to 15% (2012: 18% as during the last year it was burdened by the expense for the fiscal review).

Capital expenditure

Capital expenditure (RON mn)			
	2012	2013	Δ (%)
Exploration and Production	3,753	4,401	17
Gas and Power	221	18	(92)
Refining and Marketing	899	827	(8)
Corporate and Others	57	57	0
Total capital expenditure	4,930	5,303	8
+/- Other adjustments ¹	145	105	(28)
Additions according to statement of non-current assets (intangible and tangible assets)	5,075	5,408	7
+/- Non-cash changes ²	55	(413)	n.m.
Cash outflow due to investments in intangible and tangible assets	5,130	4,995	(3)
+ Cash outflow due to investments in securities, loans and other financial assets	-	-	-
Investments as shown in the cash flow statement	5,130	4,995	(3)

¹ Capital expenditure is adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves, borrowing costs and other additions which by definition are not considered as capital expenditures

² Additions are adjusted for items that did not affect cash flows during the period (including acquisitions through financial leasing, reassessment of decommissioning provisions and changes of payables arising from investments)

Capital expenditure increased to RON 5,303 mn (2012: RON 4,930 mn), due to higher investments in E&P, partly offset by lower CAPEX in G&P and R&M.

Investments in **E&P**, at RON 4,401 mn (2012: RON 3,753 mn), represented 83% of the total figure for 2013 and were predominantly spent on drilling development wells, integrated field redevelopment initiatives, workover activities and sub-surface operations, surface facilities, as well as for investments related to the Totea Deep project. Investments in **G&P** at the amount of RON 18 mn were significantly below 2012 (RON 221 mn), as the Brazi

power plant started commercial operations in August 2012. Capital expenditure in the **R&M** segment of RON 827 mn (2012: RON 899 mn) accounted for 16% of 2013 Group total investments. In Refining, investments were mainly related to the Petrobrazil modernization program (including modernization of the Gas Desulfurization with Sulfur Recovery unit and of the Vacuum Gas Oil conversion). In addition, investment funds were also directed to efficiency projects, as well as to legal and environmental compliance projects. Corporate & Other (**Co&O**) segment investments stood at RON 57 mn, mainly referring to investments directed to IT projects.

R&M CAPEX
mainly dedicated
to Petrobrazil
refinery
modernization

Balance sheet

Summarized balance sheet (RON mn)

	2012	%	2013	%
Assets				
Non-current assets	32,777	86	34,560	86
Intangible assets and property, plant and equipment	29,479	77	31,474	79
Investments in associated companies	39	0	43	0
Other non-current assets	2,393	6	2,166	5
Deferred tax assets	866	2	877	2
Current assets	5,368	14	5,487	14
Inventories	2,251	6	1,996	5
Trade receivables	1,968	5	1,429	4
Other current assets	1,149	3	2,062	5
Equity and liabilities				
Equity	23,405	61	26,642	67
Non-current liabilities	8,646	23	8,238	21
Pensions and similar obligations	241	1	304	1
Interest-bearing debts	1,717	5	1,254	3
Decommissioning and restoration obligations	5,866	15	5,778	14
Provisions and other liabilities	813	2	891	2
Deferred tax liabilities	8	0	11	0
Current liabilities	6,094	16	5,167	13
Trade payables	2,880	8	2,958	7
Interest-bearing debts	525	1	189	0
Provisions and other liabilities	2,689	7	2,020	5
Total assets / equity and liabilities	38,145	100	40,047	100

Total assets increased slightly by RON 1,902 mn to RON 40,047 mn. The increase in **intangible assets and property, plant and equipment** by RON 1,995 mn is the main driver of the net increase of non-current assets by RON 1,783 mn up to RON 34,560 mn. Additions to intangible assets and property, plant and equipment (RON 5,408 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 1,995 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 79% (2012: 77%).

The upward development in **current assets**, of RON 119 mn, is triggered by the RON 913 mn increase in other assets, partially offset by the reduction in inventories and trade receivables by RON 739 mn. The increase in **other current assets** was mainly due to a positive evolution of cash and cash equivalents following higher free cash flows, compensated by higher bank loans reimbursements. The decrease in **trade receivables** was influenced by lower commercial sales in the R&M segment and lower gas sales due to milder winter compared to the previous year.

The increase in **equity** by RON 3,237 mn resulting from higher net profit of the year improved the equity ratio to 67% (2012: 61%). The decrease in **interest-bearing debts** (both, **long term and short term**) by RON 799 mn is mainly related to reimbursements of loans from the European Bank for Reconstruction and Development of RON 675 mn, the European Investment Bank of RON 84 mn and the Black Sea Trade and Development Bank of RON 66 mn.

Trade payables increased slightly by RON 78 mn mainly related to intensive investment activities. **Provisions and other liabilities** (current portion) show a decrease of RON 669 mn in 2013 mainly due to the payments made in Q1 2013 related to the fiscal review for the years 2009 and 2010 concluded in Petrom in 2012; but also due to reduction in provisions and decreases of liabilities associated with assets held for sale after finalization of the sale of the Petrom LPG subsidiary.

Gearing ratio

Petrom Group's **net debt** shows a significant decrease to RON 332 mn, compared to RON 1,711 mn at the end of 2012, as the cash flows generated by operations more than exceeded the cash outflows from investments and financing. Consequently, as of December 31, 2013, the **gearing ratio** further decreased to 1.2%, from 7.3% in December 2012.

Cash flow

The Group's cash flow statement is prepared using the indirect method.

Cash flow from operating activities increased by RON 863 mn or 12% compared to 2012, reaching RON 8,048 mn. The reconciliation of profit before taxation for the year to the cash flow from operating activities (before changes in working capital) resulted in a net upward adjustment of RON 2,426 mn for 2013 (2012: RON 2,352 mn). While depreciation, amortization and write-ups added RON 3,355 mn (2012: RON 2,852 mn), net movement in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) contributed a decrease of RON 60 mn (2012: decrease of RON 227 mn) to the cash flow. The disposal of non-current assets and other non-cash adjustments led to an increase of RON 101 mn (2012: increase of RON 781 mn). Net interest and tax on profit paid generated a cash outflow of RON 969 mn (2012: cash outflow of RON 1,053 mn) ^{vii}.

In 2013, net working capital generated a cash outflow of RON 77 mn (2012: cash inflow of RON 7 mn). From cash flow perspective, inventories decreased by RON 146 mn (2012: increase by RON 25 mn), receivables decreased by RON 340 mn (2012: increased by RON 162 mn) and liabilities decreased by RON 562 mn (2012: increased by RON 194 mn).

Cash outflows for investments in non-current assets of RON 4,995 mn (2012: RON 5,130 mn) were slightly offset by proceeds from the sale of non-current assets of RON 47 mn (2012: RON 64 mn) and cash inflows related to the sale of subsidiaries of RON 54 mn (2012: RON 10 mn).

Net cash outflow from investment activities totaled RON 4,895 mn (2012: RON 5,055 mn).

^{vii} Starting 2013, net interest received/(paid) and tax on profit paid were reclassified as sources of funds items. December 31, 2012 figures were reclassified accordingly

Higher free cash flows

Lower interest-bearing debts

Cash outflows from the reimbursements of short and long-term borrowings amounted to RON 837 mn (2012: outflow RON 478 mn). Cash outflows for dividend payments amounted to RON 1,574 mn in 2013 (2012: RON 1,741 mn). **Net cash outflow from financing activities** amounted to RON 2,412 mn (2012: outflow RON 2,220 mn).

Risk management

As per the Code of Corporate Governance, Petrom's Supervisory Board's role is to adopt strict rules and obtain assurance via its specialized Audit Committee that the company has an effective risk management system in force. Furthermore, Petrom's Executive Board is continuously executing oversight and steers the company's risk management system by close involvement in the risk management process and its development.

For assessing the risks associated with Petrom's entire portfolio of operations, the Executive Board has empowered a dedicated Risk & Insurance Management Department with the objective to lead and coordinate the company's risk management.

Furthermore, Petrom's risk management system is part of the corporate decision-making process. For any new major projects, new strategies or market directions, workshops are organized for assessing the risks associated with the benefits of the respective opportunity, while the risk information collected in the workshops as well as any relevant third party opinions are used for taking informed decisions.

In 2013, Petrom has developed together with the Institute of Risk Management UK an internal company-wide training program called "Petrom Risk Academy" which will unfold in 2014 and enhance the risk management competences within top and middle management. Through its risk management process, Petrom secures its liquidity and long-term sustainability, and decreases the uncertainty over its strategic objectives and financial targets.

Petrom's Enterprise Wide Risk Management

(EWRM) system is recognized via various benchmarks of external consultants as part of best practice at international level. The EWRM system actively and formally pursues the identification, analysis, evaluation and treatment of all risks (market and financial, operational and strategic) in order to manage their effects on the company's cash flow up to an acceptable level agreed as per the risk appetite.

The EWRM system follows ISO31000 and comprises a dedicated risk organization working under a robust internal regulation framework with quantitative information technology infrastructure as well as assuring that the process is embedded into the day-to-day operational business and delivers against its intended purpose.

Petrom has four levels of risk management roles in a pyramid-type risk organization. The first bottom layer comprises the risk owners represented in all areas of activity by managers of various areas, the second level are the business units and divisional risk coordinators who facilitate and coordinate the risk management process in their division, the third layer is the risk manager function represented by the Risk Management department who coordinates the entire risk management process assisted by the specialized corporate functions (HSSE, Compliance, Legal, Finance, Controlling). The top level role is represented by Petrom's Executive Board which steers and approves Petrom's consolidated risk profile in accordance with the company's objectives and risk appetite. The risk management system and its effectiveness are monitored by the Audit Committee of the Supervisory Board via regular reports.

The objective of Petrom's risk management system is to secure its capacity to deliver positive economic value added for a medium-term time horizon by managing the company's risks and their potential cash flow impact within the limits of the risk appetite. High potential single event risks as well as Long Term Strategic risks are also identified and managed consistently.

Petrom has a pyramid-type risk organization

Petrom follows best international practices in risk management

The risk categories currently used within Petrom's EWRM system are organized within the market and financial, operational and strategic categories, containing, among others, also market, financial, project, process, health, safety and security, tax, compliance, personnel, legal, regulatory and reputational risks.

In terms of tools and techniques, Petrom follows the best international practices in risk management and uses stochastic quantitative models to measure the potential loss associated with the company's risk portfolio under a 95% confidence level and a three-year horizon. All risks are analyzed based on their causes, consequences, historical trends, volatilities and cash flow potential impact.

Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and single event hazard operational risks.

As regards **market price risk**, Petrom is naturally exposed to the price driven volatility of cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. Market risk has core strategic importance within Petrom's risk profile and liquidity. The market price risks of Petrom commodities are closely analyzed, quantified and evaluated. Petrom may use hedging instruments to mitigate its exposure to commodity market price risks in order to secure minimum expected cash needs.

Petrom does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes. Derivative financial instruments are used solely for the purposes of managing exposure to commodity price and currency, which are being evaluated, considering Petrom's needs and being approved by Petrom's Executive Board in consistency with the company's risk appetite.

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

In terms of **foreign exchange risk management**, Petrom cash is essentially exposed to the

volatility of RON against USD and also to EUR. The effect of foreign exchange risk on cash flows, as well as the correlation with the oil price, are regularly monitored.

From an **operational risk** perspective, Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is awarded to process safety risks where Petrom's policy is "prevent incidents, ensure safe operations". The high potential single-event risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are consistently identified and for each of them incident scenarios are developed and assessed. Where required, treatment plans are developed for each specific location. Besides emergency, crisis and disaster recovery plans, Petrom's policy with regard to insurable risks is to cover them via insurance instruments. These risks are closely analyzed, quantified and monitored by the risk organization and are managed via detailed internal procedures.

Counterparty credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Petrom. Group's counterparty credit risks are assessed, monitored and managed at company level using predetermined limits for specific countries, banks, business partners and suppliers. On the basis of creditworthiness and available rating information, 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 the purpose of assessing **liquidity risk** in the short term, the budgeted operating and financial cash inflows and outflows throughout Petrom 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. For mid-term risks, to ensure that Petrom remains solvent at all times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained.

No crude oil hedging in 2013

Petrom is inherently exposed to **interest rate risk** due to its financing activities. The volatility of EURIBOR may trigger less or additional cash flow resources necessary to finance the interest payments associated with Petrom's debt. The interest rate risks are closely analyzed, quantified and monitored.

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 in 2013.

Petrom's consolidated risk profile is regularly reported in comparison with the company's risk appetite for the Executive Board's approval and for the Audit Committee's information. In 2013, in March and October, the consolidated risk profile was reported and approved by

Petrom's Executive Board in accordance with the company's risk appetite and was also presented for information to the Audit Committee which took notice of the information.

Internal control

The Group has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, non-compliance, unauthorized transactions and misstatements in financial reporting.

Petrom's internal control system covers all areas of group operations with the following goals:

- ▶ Compliance with laws and internal regulations
- ▶ Reliability of financial reporting (accuracy, completeness and correct disclosure)
- ▶ Prevention and detection of fraud and error
- ▶ Effective and efficient business operations

Internal control system in all operation areas

OMV Petrom's internal control system framework consists of the following elements:

Element	Description
Internal control environment	The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).
Assessment of process and compliance risks	Generally all business, management and support processes are within the scope of the internal control system. They are assessed to identify risky and critical activities.
Risk mitigation via control activities	Control activities and measures (such as segregation of duties, checks, approvals, IT access rights) are defined, implemented and performed to mitigate significant process and compliance risks.
Documentation and information	Related duties include the documentation of main processes and procedures containing a description of key control activities performed.
Monitoring and audit	Management and Internal Audit evaluate the effective implementation of the internal control system.

Rigorous Business Management System

For Petrom, an important prerequisite to form a comprehensive set of standards is to establish and maintain a rigorous Business Management System (BMS) designed to match the integrated set of processes and tools used by the company in developing its strategy, and translated into proper actions and in monitoring and improving effectiveness of both.

The Corporate Affairs and Compliance Department is responsible for BMS coordination. This department provides support to the various Petrom entities in view of achieving regulatory requirements, coordinates the elaboration of corporate regulations and provides a quality check. The Directive "Regulation Management" sets out the classification, definition and standardized structure of corporate regulations (directives, standards, procedures, instructions, recommendations etc.) as well as their elaboration, approval, communication, monitoring and reporting process.

Internal Audit assesses the effectiveness and efficiency of the organization's policies, procedures and systems which are in place to ensure: proper identification and management of risks, reliability and integrity of information, compliance with laws and regulations, safeguarding of assets, economical and efficient use of resources and accomplishment of established objectives and goals. Internal Audit carries out regular audits of individual group companies and informs the Audit Committee about the results of the audits performed.

Accounting Manual applied group-wide

The Group has an Accounting Manual that is applied consistently in all group companies in order to ensure uniform accounting treatment is applied for the same business cases. The Group Accounting Manual is updated regularly with changes in International Financial Reporting Standards. Furthermore, the organization of the accounting and financial reporting departments is set up in order to achieve a high quality financial reporting process. Roles and responsibilities are specifically defined and a revision process – the "four-eye principle" – is applied in order to ensure correctness and

accuracy of the financial reporting process. The establishment of group-wide standards for the preparation of annual and interim financial statements by means of the Group Accounting Manual is also regulated by an internal Corporate Guideline.

Subsequent events

Please refer to Note 35 in the Consolidated Financial Statements.

Outlook and management agenda for 2014

The consolidation of economic recovery requires fiscal and political stability

According to the European Commission, Romania's economy is forecast to grow by 2.3% in 2014 driven primarily by domestic demand, supported by a pick-up in the pace of both consumption and investment. External environment is expected to have an impact on the demand for domestic exports as well as on sovereign borrowing costs. However, the timing and the direction of domestic economic policies will determine the strength of the consolidation of economic growth.

Markets development

We expect the average Brent oil price to remain above USD 100/bbl and the Brent-Urals spread to stay relatively tight.

In the local **gas** market, demand is expected to further decrease, which will lead to increased competition and margin pressure. The gas price liberalization calendars foresee four domestic gas price increases to occur this year for both households and non-households (first in January, already implemented). The Energy Law no. 123/2012 stipulates the option to postpone the gas price liberalization for non-households by one year.

In the **power** market, demand is anticipated to contract which reflects, in part, prospective energy efficiency measures. Prices are expected to remain under significant pressure due to decreasing demand and stronger competition, taking into account the impact of renewables and overcapacity. The intra-day market became functional in January 2014, while the over-the-counter (OTC) platform for electricity trading

is planned to become operational in the first quarter of 2014.

Refining margins and **marketing** volumes are expected to be further challenged by high price levels for international crude and oil products, marginal economic recovery in our operating region and fiscal measures mainly in Romania.

Regulatory and fiscal environment

For 2014, we anticipate discussions with respect to the implementation of the gas deregulation calendars and the extraordinary taxation measures introduced at the beginning of 2013 with a view to be applied until the end of 2014, which will have an impact on our financial results. Moreover, this year we are prepared to continue our discussions with the Romanian authorities to achieve a long term, stable and investment-friendly taxation and regulatory framework.

Given the long-term cycle of investments in the oil and gas sector, the recent changes in the fiscal regime have a direct impact on the company's business. These affect both market supply and demand and impact the company's financials and the operating performance. The newly introduced tax of 1.5% applied to the gross value of special constructions, will have a direct negative impact on the operating costs in all segments (mostly in E&P) as well as on the business cases of some of our investment projects.

Sizeable investments

In order to support the company's sustainable development and growth potential, we continue our significant investment efforts while maintaining a sound financial position, with CAPEX plans for 2014 set at over EUR 1 bn.

In **E&P**, we will continue our focus on developing growth opportunities as well as on implementing the performance improvement initiatives throughout the organization. Our investment efforts will be directed towards projects that envisage production stabilization through field redevelopment, drilling and workovers, operational excellence initiatives as well as portfolio optimization through partnerships.

We aim to bring four field redevelopment projects into the implementation phase in order to sustain our efforts of increasing the ultimate oil and gas recovery. We plan to drill more than 140 wells, using advanced technologies like sidetracking, horizontal, casing and cluster drilling.

The workover activities in Petrom will be maintained at a high level of around 1,600 jobs and aim for an important contribution to production. Moreover, important new wells (e.g. 4545 Totea, 4340 Mamu) are expected to bring additional gas production.

In the Black Sea, in joint venture with ExxonMobil Exploration and Production Romania Limited, in the Neptun Deep we plan to resume the drilling campaign mid-2014 while in Midia block we will continue with seismic data interpretation.

Under the joint ventures with Repsol and Hunt Oil, we will further progress the onshore exploration drilling programs. Additional seismic interpretation works will focus on all the recent 3D seismic acquisition projects.

In Kazakhstan, we will further implement water injection schemes in the Komsomolskoe field and carry out TOC field redevelopment plan to sustain production levels.

In **G&P**, we will mainly focus on further optimizing the gas value chain to address challenges in the market and regulatory environment.

In the gas market, our priorities will be set on maintaining a leading position in the gas market, whilst capturing synergies from bundling electricity sales with natural gas sales to the existing customer base.

Further deterioration of spark spreads is expected, leading to a negative result of the power business in 2014, but we will try to mitigate this by consolidating the Brazil power plant's position in the balancing and ancillary services markets, capitalizing on plant flexibility. In addition, we will work on maximizing the operational performance of the Dorobanțu wind park.

In **R&M**, we will continue our optimization and strict cost management activities, expecting

**Focus on
production
stabilization**

**Focus on further
optimization of
the gas value
chain**

Refinery product yield and energy efficiency to further improve

another year with a challenging market environment. Moreover, we will continue energy efficiency improvements and target the reduction of CO₂ emissions.

In the Petrobrazi refinery, the planned modernization will continue and a 30-day planned shutdown and turnaround is scheduled starting at the end of May in order to upgrade the Diesel Hydrotreater and Fluid

Catalytic Cracking conversion units. This will improve product yields (higher share of middle distillates) and energy efficiency.

The modernization program of revamping and optimizing the fuel terminals network will continue with the start of commercial operations in the revamped Bacău terminal by end of Q1 2104. The reconstruction of the Cluj terminal will also commence.

Corporate Governance Report

To remain competitive in a changing world, Petrom develops and updates its corporate governance practices, so that it can meet new demands and opportunities.

A transparent decision-making process, relying on clear and objective rules, enhances shareholders' confidence in the company. It also contributes to the protection of shareholders' rights, improving the overall performance of the company and providing better access to capital and risk mitigation.

The company has, therefore, always placed great importance on good corporate governance and has adhered to the principles laid down in the Corporate Governance Code issued by the Bucharest Stock Exchange.

In April 2007, a two-tier system of governance was implemented in the company. Since then, Petrom's governance has been run by an Executive Board, which manages the daily operations of the company, and a Supervisory Board elected by the shareholders to act as a monitoring body, supervising and controlling the Executive Board. The powers and duties of the above-mentioned bodies are described in the company's Articles of Association, available on our website (within the Corporate Governance section) and in the relevant internal regulations.

Commitment to good corporate governance

In accordance with best corporate governance practice, the company is managed in a climate of openness, based on honest discussions between the Executive Board and the Supervisory Board, as well as within each of these corporate bodies. Members of the aforementioned corporate bodies have a duty of care and loyalty towards the company. Hence, the Executive Board and the Supervisory Board pass their resolutions as required for the welfare of the company, primarily in consideration of the interests of shareholders and employees.

General Meeting of Shareholders

The General Meeting of Shareholders (GMS) shall be convened by the Executive Board whenever this is necessary, in accordance with

the provisions of law. The date of the GMS may not be within less than 30 (thirty) days after publishing the convening notice in the Official Gazette of Romania, part IV. The convening notice shall be also published in one of the widely-distributed newspapers in Romania. In exceptional cases, when the company's interest requires it, the Supervisory Board may convene the GMS. The convening notice will be disseminated to the Bucharest Stock Exchange and the Financial Supervisory Authority (former National Securities Commission) in accordance with capital markets regulations. The convening notice will also be made available on the company's website, within the General Meeting of the Shareholders section, together with any explanatory document related to items included on the GMS agenda. The annual financial statements are made available starting with the date of the convening notice of the Ordinary GMS convened to resolve upon them.

General Meeting of the Shareholders organization

The GMS is usually chaired by the President of the Supervisory Board, who may designate another person to chair the assembly. The chairman of the GMS designates two or more technical secretaries to verify the fulfillment of the formalities required by law for carrying out the GMS and for drafting the minutes thereof. The minutes, signed by the President and by the secretaries, shall ascertain the fulfillment of the formalities relating to the convening notice, the date and place of the GMS, the agenda, the shareholders present, the number of shares, a summary of the issues discussed, the resolutions passed and, upon the request of the shareholders, the statements made by such shareholders during the GMS.

The resolutions of the GMS shall be drafted pursuant to the minutes and shall be signed by the President of the Supervisory Board or by another person appointed by the President. In observance of capital market regulations, the resolutions of the GMS will be disseminated to the Bucharest Stock Exchange and the Financial Supervisory Authority (former National Securities Commission) within 24 hours after

General Meeting of Shareholders

**Ordinary GMS
main duties**

the event. The resolutions will also be made available on the company's website, within the General Meeting of the Shareholders section.

General Meeting of the Shareholders main duties

The main duties of the Ordinary GMS are the following:

- ▶ to discuss, approve or modify the annual financial statements after having reviewed the reports of the Executive Board, of the Supervisory Board, of the financial auditor and of the internal auditors;
- ▶ to distribute the profit and to establish the dividends;
- ▶ to elect the members of the Supervisory Board and the financial auditor and to revoke the appointment of each of the foregoing; to approve the minimum term of the audit contract;
- ▶ to establish the remuneration of the members of the Supervisory Board and of the financial auditor for the current fiscal year;
- ▶ to assess the activity of the Executive Board members and of the Supervisory Board members, to evaluate their performance and to discharge them of their duties in accordance with the provisions of law;
- ▶ to approve the income and expenditure budget, as well as the business program for the next fiscal year;
- ▶ to approve the reports of the Supervisory Board with respect to the supervision activity performed by it.

The Extraordinary GMS is entitled to decide mainly upon:

- ▶ changing the corporate form of the company;
- ▶ altering the scope of business of the company;
- ▶ increasing the share capital of the company;
- ▶ reducing the share capital of the company;
- ▶ merging with other companies;
- ▶ spin-offs from the company;
- ▶ an early dissolution of the company;
- ▶ converting shares from one class into another;
- ▶ any changes to the Articles of Association.

Supervisory Board

The Supervisory Board consists of nine members elected by the Ordinary GMS, in

accordance with the provisions of company Law. The Supervisory Board's current mandate started in 2013 and runs until 2017. The members of the Supervisory Board may be shareholders of the company, but they cannot be members of the Executive Board.

Supervisory Board members

At the end of 2013, the membership of the Supervisory Board comprised the following individuals:

Gerhard Roiss, David Charles Davies, Joseph Bernhard Mark Mobius, Manfred Leitner, Hans-Peter Floren, Riccardo Puliti, Lucian-Dan Vlădescu, George Băeșu and Johann Pleininger (interim member of the Supervisory Board until the next Ordinary General Meeting of Shareholders).

Supervisory Board main powers

The Supervisory Board has the following main powers:

- ▶ to exercise control over the management of the company by the Executive Board;
- ▶ to determine the structure and the number of positions in the Executive Board; to appoint and revoke the members of the Executive Board;
- ▶ to create an audit committee and other specialized committees, if appropriate;
- ▶ to check that the acts undertaken in the course of the management of the company are compatible with law, the Articles of Association and any relevant resolutions of the General Meeting of Shareholders;
- ▶ to submit to the General Meeting of Shareholders a report concerning the supervision activity undertaken;
- ▶ to represent the company in relation to the Executive Board;
- ▶ to verify the company's financial statements;
- ▶ to verify the report of the members of the Executive Board;
- ▶ to propose to the General Meeting of Shareholders the appointment and the revocation of the financial auditor, as well as the minimum term of the audit contract.

The responsibilities of the members of the Supervisory Board, as well as the working

**Extraordinary
GMS main duties**

procedures and the approach to conflicts of interest and own account dealings are governed by relevant internal regulations.

As required by company Law, none of the Supervisory Board members holds an executive position in the company. During the 2013 financial year, the Supervisory Board met six times in person and submitted its approval in writing on four occasions (more details are presented within the report of the Supervisory Board).

Special Committees

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the Supervisory Board itself, without thereby preventing the entire Supervisory Board from dealing with matters assigned to the committees.

The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders. Likewise, the remuneration of the Supervisory Board members is established by the Ordinary GMS.

An **Audit Committee** composed of four Supervisory Board members was established to provide assistance to the governing bodies of the company in the area of internal control and financial reporting.

This committee reviews the annual accounts and the proposal for profit distribution.

In addition, the Audit Committee prepares the proposal of the independent financial auditor to the Supervisory Board, which is to be elected by the Ordinary GMS.

Moreover, this committee supervises the company's risk management strategy and its financial performance and assesses the issues subject to the reports of the internal auditors. The Executive Board reports to the Audit Committee at least once a year on the audit plan and any material findings.

In accordance with Company Law, the Audit

Committee includes members that have the necessary expertise in the area of financial audit and accounting.

Until April 28, the Audit Committee members were: David Charles Davies, Manfred Leitner, Gheorghe Ionescu and Riccardo Puliti. Following the start of the new mandate of the Supervisory Board, four members of the Audit Committee were appointed, including the President and the Deputy. The Audit Committee consists of the following members: David C. Davies (President of the Audit Committee), Manfred Leitner (Deputy President of the Audit Committee), Riccardo Puliti (Member) and George Băeșu (Member).

During the 2013 financial year, the Audit Committee met three times (more details presented under the corresponding section within the report of the Supervisory Board).

Executive Board

The Executive Board is appointed and/or revoked by the Supervisory Board. The number of members shall be determined by the Supervisory Board, provided that such number is not lower than three and not higher than seven. One Executive Board member is appointed as the President of the Executive Board (also named Chief Executive Officer of the company). The Executive Board's current mandate started in 2011 and runs until 2015. The meetings of the Executive Board are held regularly (usually every week) and whenever necessary for the operative management of the company's daily business.

Executive Board members

As of December 31, 2013 the Executive Board of the company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Andreas Matje (Executive Board member and Chief Financial Officer), Gabriel Selischi (Executive Board member in charge of Exploration and Production), Neil Anthony Morgan (Executive Board member in charge of Refining and Marketing), Cristian Nicolae Secoșan (Executive Board member in charge of Gas and Power).

Audit Committee members

EB main duties**Executive Board main duties**

As provided by the Articles of Association, the main duties of the Executive Board, performed under the supervision and control of the Supervisory Board, are:

- ▶ to establish the strategy and the policies regarding the development of the company, including the organizational structure of the company and the operational divisions;
- ▶ to submit annually for the approval of the General Meeting of Shareholders, within four months of the end of the fiscal year, the report regarding the business activity of the company, the financial statements for the previous year, as well as the business activity and budget projects of the company for the current year;
- ▶ to conclude legal acts on behalf of and for the account of the company, with observance of matters reserved to the General Meeting of Shareholders or to the Supervisory Board;
- ▶ to hire and to dismiss, and to establish the duties and responsibilities of the company's personnel, in line with the company's overall personnel policy;
- ▶ to undertake all the measures necessary and useful for the management of the company, implied by the daily management of each division or delegated by the General Meeting of Shareholders or by the Supervisory Board, with the exception of those reserved to the General Meeting of Shareholders or to the Supervisory Board through operation of law or of the Articles of Association.
- ▶ to exercise any competence delegated by the Extraordinary General Meeting of Shareholders.

The Executive Board coordinates the strategic orientation of the company and reports to the Supervisory Board on a regular basis on all relevant issues concerning the course of business, strategy implementation, the risk situation and risk management of the company.

The Executive Board ensures that the provisions of the relevant Romanian capital markets legislation are complied with and implemented by the company, as earlier presented within this chapter. Likewise, the

Executive Board ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the company.

The members of the Executive Board and persons closely related to them (the latter term as defined in the applicable capital markets regulations under the Romanian phrase of "persoană aflată în relații apropiate cu persoane exercitând funcții de conducere") have the duty to report to the Executive Board, to the Supervisory Board and to the Financial Supervisory Authority (former National Securities Commission) any and all trading/ business performed for their own account involving (i) shares or other securities issued by the company and admitted for trading on regulated markets; and/or (ii) derivative financial instruments using securities issued by the company and/or (iii) any other instruments relating thereto.

The members of the Executive Board have the duty to disclose immediately to the Supervisory Board any material personal interests they may have in transactions of the company as well as all other conflicts of interest. Furthermore, they have the duty to notify other Executive Board colleagues of such interests forthwith.

All business transactions between the company and the members of the Executive Board as well as persons or companies closely related to them must be in accordance with normal industry standards and applicable corporate regulation. Such business transactions as well as their terms and conditions require the prior approval of the Supervisory Board.

In 2013, 57 meetings of the Executive Board were held in order to pass resolutions on all matters requiring its approval in accordance with the Articles of Association and the company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the company and to inform each other about all relevant issues of their activity.

Shareholders' rights

Rights of the company's minority shareholders are adequately protected according to relevant domestic legislation.

The shareholders have the right to obtain relevant information on the company on a timely and regular basis. They have the right to be informed about the decisions concerning fundamental corporate changes with the view to understand their rights.

Several key decisions are assigned to shareholders via the General Meeting of Shareholders. Among these decisions are included:

- ▶ appointment and revocation of the members of the Supervisory Board and auditors;
- ▶ approval of the remuneration for the members of the Supervisory Board and auditors;
- ▶ approval of the annual financial statements;
- ▶ approval of any amendments to the Articles of Association;
- ▶ resolutions on share capital increase, decrease, mergers and/or spin-offs.

Moreover, the shareholders have the right to participate effectively and vote in the GMS and to be informed of the rules, including voting procedures that govern the General Meetings of the Shareholders.

One share, one vote, one dividend

Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote.

GMS calling

Shareholders holding at least 5% of the share capital may request that a GMS be called. Such shareholders have also the right to add new items to the agenda of a GMS, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals. Proposals with respect to adding new items on the agenda of such GMS can be submitted at the headquarters of the company, or by e-mail having attached an extended electronic

signature, in compliance with Law no. 455/2001 using a digital signature.

Likewise, shareholders holding at least 5% of the share capital are entitled to submit draft resolutions for the items listed on the agenda or proposed by other shareholders to be added on the agenda of such GMS.

GMS attendance

The company actively promotes the participation of its shareholders in the GMS, as they are invited to raise questions concerning items to be debated during such meetings. The shareholders may attend in person or may be represented in the GMS either by their legal representatives or by representatives having a special proxy, based on the special proxy template made available by the company. Such proxy template may be obtained from the company headquarters and/or can be found on the company's website, within the General Meeting of Shareholders section. The shareholders duly registered in the shareholders' register may vote by correspondence, prior to the GMS, by using the voting bulletin for the votes by correspondence made available by the company at the headquarters and/or on the company's website.

Taking shareholders' questions

The shareholders of the company, regardless of the stake of the share capital held, may submit written questions with respect to the items on the agenda of the GMS, provided that such questions are accompanied by copies of their valid identification at the headquarters of the company. The shareholders may also send such questions by e-mail having attached an extended electronic signature. The disclosure of commercially sensitive information that could result in a loss or competitive disadvantage for the company will be avoided when providing the answers, in order to protect the interests of our shareholders.

Any agreements, understanding or family connection between the Supervisory Board members and another person who is responsible for appointing of the respective person in the position of Director

Petrom's governance follows a two-tier

Shareholders' participation in the GMS

Shareholders' right to address questions

**Petrom's
governance
follows a two-tier
system**

system, with the Executive Board ensuring the management of the company under the control and supervision of the Supervisory Board. The members of the Supervisory Board are not appointed by certain persons or certain shareholders. They are appointed by the Ordinary General Meeting of Shareholders based on shareholders' votes and in compliance with the statutory requirements relating to quorum and majority. Therefore, there are no such agreements and understandings to be disclosed herein.

The participation of the Supervisory Board members at the share capital of the company

Lucian-Dan Vlădescu holds a number of 985 shares since 2002. Petrom does not have knowledge of any other member of the Supervisory Board holding shares issued by the Company during the year under review.

Any agreement, understanding or family connection between Executive Board members and another person who is responsible for appointing him/her member of the executive management

Petrom does not have knowledge of any such agreement or understanding.

The participation of the Executive Board members at the share capital of the company

Following the share buy-back program, 100

shares were assigned to Mariana Gheorghe, President of the Executive Board. Likewise, as a matter of good corporate governance, we outline that Mariana Gheorghe's husband holds 60,000 shares issued by Petrom.

Women's advancement

The company supports gender diversity and promotion of women in management positions. While there are no female members of the Supervisory Board of the company, the President of the Executive Board is Mariana Gheorghe. By the end of 2013, around 24% of the first line directors Executive Board were women whilst the percentage of women in middle management was around 36%. Given the strong technical bias of our operations, the proportion of women in the Group as a whole by year end was 23%, in line with that of the OMV Group, which Petrom is part of.

Bucharest Stock Exchange Corporate Governance Code

The company adheres to the Corporate Governance Code issued by the Bucharest Stock Exchange starting from the 2010 financial year. The details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange are presented in the "Comply or Explain" statement, which is a part of this annual report.

“Comply or Explain” statement

BSE Corporate Governance Code

The “Comply or Explain” statement below was prepared taking into account the particularities of the two-tier system applicable to OMV Petrom S.A. (“Petro” or “the company” or “the Issuer”), whereas the statement template is structured according to the one-tier management system.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P19		Is the Issuer managed in a two tier system?	✓		Since April 2007, Petro is managed in a two-tier system by an Executive Board, which manages the daily operations under the supervision of the Supervisory Board.
P1	R1	Has the Issuer drawn up a Statute/Corporate Governance Regulation which describes the main aspects of the corporate governance principles?	✓		The corporate governance principles are also laid down in the Issuer’s Articles of Association, the internal rules of the Supervisory Board and the Executive Board, as well as in other internal regulations. The Issuer has drawn up a Corporate Governance Statute which describes the overall picture of the company’s corporate governance.
		Is the Statute/Corporate Governance Regulation (mentioning the date of its last update) posted on the website of the Issuer?	✓		The Corporate Governance Statute is posted on the website of the Issuer bearing the date of its last update.
	R2	In the Statute/Corporate Governance Regulation, are there defined corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board?	✓		The corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board are defined in the Articles of Association of the Issuer. They are also laid out in the Corporate Governance Statute.
	R3	Does the Annual Report of the Issuer contain a chapter referring to corporate governance, which describes all the relevant events related to corporate governance registered in the previous financial year?	✓		Petro’s 2013 Annual Report has a chapter describing all the relevant events related to the corporate governance issues in the 2013 financial year.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P1	R3	Does the Issuer disclose on its website the information related to the following aspects of its corporate governance: a) a description of the Issuer's corporate governance structures?	✓		Petrom's website has a special section where details about corporate governance bodies are entered. The structure of the Executive Board and of the Supervisory Board is presented on the website. Likewise, the details regarding the organization of the GMS of the company are also presented on the website.
		b) the updated Articles of Association?	✓		The last version of Petrom's Articles of Association is posted on its website, under the Corporate Governance section.
		c) the internal regulation governing the functioning /its essential aspects for each special commission/ specialized committee?	✓		The rules governing the functioning of each special commission/committee are bundled in the Corporate Governance Statute which is posted on the website of the Issuer.
		d) the "Comply or Explain" Statement?	✓		"Comply or Explain" Statements are posted on Petrom's website.
		e) the list of the Supervisory Board members specifying which members are independent, of the Executive Board and of the special commissions/ committees?	✓		Details about the members of the Supervisory Board, the Executive Board and the Audit Committee are presented on the Issuer's website.
		f) a brief version of the CV of each Supervisory Board and Executive Board member?	✓		Petrom has a special section on its website where short versions of the CVs of the members of the corporate bodies are posted.
P2		Does the Issuer respect the rights of the holders of the financial instruments issued by the Issuer, ensuring equal treatment for them while also submitting any change of the granted rights for approval by the special meetings of such holders?	✓		The Issuer complies with the regulations setting forth the rights of the shareholders. Any changes of the already granted rights are submitted for the approval of the shareholders.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P3	R4	Does the Issuer publish in a special section of its website the details of the holding of the General Meetings of Shareholders ("GMS"): a) the GMS convening notice?	✓		Petrom's website has a special section where the GMS convening notices are posted.
		b) the materials/ documents relating to the items on the agenda, as well as any other information about the items on the agenda?	✓		Petrom's website has a special section where materials/documents/any other information relating to the items on the agenda of the GMS are posted.
		c) the templates of the special power of attorney?	✓		Petrom's website has a special section where the templates of the special power of attorney can be found.
	R6	Has the Issuer drawn up and submitted for the GMS approval procedures for an efficient and methodical holding of the GMS according to procedure, however without prejudice to the right of any shareholder to freely express their opinion on the topics subject to the debates?	✓		The details of the organization of the GMS are mentioned in the Issuer's Articles of Association and Statute of Corporate Governance. Likewise, Petrom publishes at every GMS extensive convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Issuer ensures that the General Meetings of Shareholders are adequately conducted and well organized while the shareholders' rights are duly communicated and observed.
	R8	Does the Issuer disclose in a special section of its website the shareholders' rights as well as the rules and procedures for the attendance at GMS?	✓		The rights of the shareholders are outlined on the Issuer's website. Likewise, the rules and procedures for attendance at the GMS, as well as the rights of the shareholders, are always described in the convening notice which is always posted on Issuer's website. The rights of the shareholders are laid down in each and every annual report.
		Does the Issuer provide the information in due time (immediately after the GMS) to all shareholders through the special section on the Issuer's website: a) the resolutions passed by GMS?	✓		Petrom's website has a special section where the resolutions passed by the GMS are posted in due time.
		b) the detailed results of voting?	✓		Petrom's website has a special section where detailed results of voting are posted in due time.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P3	R8	Does the Issuer disseminate through the special section of the Issuer's website, which is easily identifiable and accessible: a) ad-hoc reports/official statements?	✓		Petrom's website has special section where ad-hoc reports and official statements are posted.
		b) the financial calendar, the annual, quarterly and half-yearly reports	✓		Petrom's website has an easily accessible special section where the financial calendar and periodical reports are posted.
	R9	Has the Issuer set-up a special department or has appointed a person dedicated to the relation with investors?	✓		Petrom has set up a special department dedicated to investor relations that can be contacted at phone number +40 (0) 214022206 or via e-mail: investor.relations.petrom@petrom.com. Likewise, a special section of the company's website is dedicated to investors.
P4, P5	R10	Does the Supervisory Board meet at least once a quarter for supervising the activity of the Issuer?	✓		The Supervisory Board meets whenever necessary, but at least once every three months. In 2013, the Supervisory Board met six times in person and passed resolutions by circulation on four additional occasions.
	R12	Has the Issuer a set of rules referring to the conduct and the reporting obligations relating to the trading of the shares or of other financial instruments issued by the Issuer (" issuer securities ") made on their account by the members of the Executive Board and other related natural persons?	✓		Such rules are laid down in the internal regulations of the Issuer, while the Issuer has set up special structures to follow the implementation of such internal regulations.
		Are the trades with the issuer's securities made by the members of Supervisory Board, Executive Board or any other insiders on their own account disclosed via the Issuer's website, according to applicable rules?	✓		All these transactions are posted on the Bucharest Stock Exchange website, in the section dedicated to the market news related to Petrom. Petrom's website also contains a link to the Bucharest Stock Exchange website, in the section Petrom>Investor Relations>Corporate Governance>Insider Trading.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P6		Does the structure of the corporate bodies of the Issuer ensure a balance between the executive and non-executive members (and especially independent non-executive members) so that the decision-making is not to be dominated by a single person or a group of persons?	✓		The Supervisory Board comprises nine members who are non-executives and who supervise the activity of the five members of the Executive Board. Therefore, the balance between executives and non-executives is ensured.
P7		Does the structure of the Supervisory Board provide a sufficient number of independent members?	✓		The Supervisory Board structure complies with the provisions of company Law no. 31/1990 on the number of independent members of the Supervisory Board.
P8	R15	In the course of its activity, is the Supervisory Board supported by any consultative commissions/committees nominated by the Supervisory Board, which deal with the analysis of some specific subjects in order to counsel the Supervisory Board on such topics?	✓		The Audit Committee supports the Supervisory Board by performing the following main activities: <ul style="list-style-type: none"> ► reviews and prepares the adoption of the annual accounts ► prepares the proposal for the distribution of profits ► prepares a proposal of an independent financial auditor ► supervises Petrom's risk management arrangements and its financial performance ► monitors the reports delivered by the internal auditors
		Do the consultative commissions/committees submit activity reports to the Supervisory Board on the specific subjects assigned to them?	✓		The Audit Committee submits activity reports to the Supervisory Board on the specific subjects assigned to it.
	R16	For the assessment of the independence of their members, does the Supervisory Board use the assessment criteria listed in Recommendation 16?	✓		The criteria used for the assessment of Supervisory Board independence are those mentioned in Company Law no. 31/1990, which are substantially similar to those provided by Corporate Governance Code.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P8	R17	Do Executive Board members permanently improve their knowledge through training/ information in the corporate governance field?	✓		The Executive Board members permanently improve their corporate governance knowledge via training/ roundtable discussion meant to enhance the corporate governance practice in the company. The CEO is also President of the Corporate Governance Institute at the Bucharest Stock Exchange and regularly attends conferences on this topic.
P9		Is the appointment of the Supervisory Board members based on a transparent procedure (objective criteria regarding personal/professional qualifications etc.)?	✓		The Supervisory Board members are appointed by the GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Issuer's Articles of Association and applicable law. Prior to the GMS, their CVs are available for the shareholders for consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board
P10		Is there a Nomination Committee within the Issuer set-up?		✓	Establishment of the Nomination Committee is a pending subject for the assessment of the corporate bodies of the company.
P11	R21	Does the Supervisory Board assess the necessity to have a Remuneration Committee/ remuneration policy for the Supervisory Board and Executive Board members at least once a year?		✓	The remuneration of the Supervisory Board members is resolved upon by the GMS every year. The setting up of a Remuneration Committee is being considered.
		Has the remuneration policy been approved by the GMS?		✓	The remuneration of the Supervisory Board members is resolved upon by the GMS and it is made public.
	R22	Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?		✓	The Remuneration Committee has not been established yet.
	R24	Is the remuneration policy of the Issuer mentioned in the Statute/Corporate Governance Regulation?		✓	Please see above.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P12, P13	R25	Does the Issuer disclose the information subject of the reporting requirements in English: a) periodical information (regular providing information)?	✓		Petrom discloses periodical information in English.
		b) permanent information (continuous providing information)?	✓		Petrom discloses permanent information in English.
		Does the Issuer prepare and make public the financial report according to the IFRS standards?	✓		Petrom has prepared and published consolidated financial statements in accordance with IFRS for the year ended December 31, 2006 for the first time. Starting 2010, Petrom also reports on a quarterly basis the condensed consolidated interim financial statements in accordance with the IFRS standards. Furthermore, in line with Romanian legal requirements applicable for listed companies, starting December 31, 2012 Petrom also prepares separate individual financial statements in accordance with IFRS.
	R26	Does the Issuer organize, at least once a year, meetings with financial analysts, brokers, rating agencies and other market specialists with the view to presenting the financial elements relevant for the investment decision?	✓		Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for investment decision. A total of more than 100 one-to-one or group meetings and presentations were held throughout 2013, including more than 150 investors and analysts. The company also attended analyst and investor conferences, organized in Romania and abroad.
	R27	Is there an Audit Committee within the Issuer?	✓		Petrom's Supervisory Board has set up an Audit Committee.
	R28	Does the Supervisory Board or the Audit Committee, as the case may be, assess on a regular basis the efficiency of financial reporting, internal control and the risk management system implemented by the Issuer?	✓		The Audit Committee assesses on a regular basis the efficiency of financial reporting, internal control and the risk management system implemented by Petrom.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P12, P13	R29	Is the Audit Committee comprised exclusively of non-executive members of the Supervisory Board and is it comprised of a sufficient number of independent members of the Supervisory Board?	✓		The Audit Committee comprises exclusively non-executive members of the corporate bodies and a sufficient number of independent members of the Supervisory Board, as provided for by Company Law no. 31/1990.
	R30	Does the Audit Committee meet at least twice a year, with the view to draw up and disclose to the shareholders half-yearly and annual financial statements?	✓		Petrom's Audit Committee meets at least quarterly in order to deal with significant accounting, reporting and risk management issues as well as with the review on the financial statements.
	R32	Does the Audit Committee make proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration?	✓		Petrom's Audit Committee makes proposals to the Supervisory Board regarding the selection, the appointment, the reappointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration.
P14		Has the Issuer approved a procedure with a view to identifying and to settling any conflicts of interest?	✓		The Issuer has established internal rules on how to deal with conflicts of interest.
P15	R33	Do the members of the Supervisory Board inform the Supervisory Board on conflicts of interests as they occur and do they refrain from debates and the vote on such matters, according to relevant legal provisions?	✓		Petrom Supervisory Board has put in place rules relating to conflicts of interest as well as the approach in this respect.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P16	R34/ R35	Has the Issuer approved the specific procedures in order to provide procedural compliance (criteria to identify the significant impact of transactions, transparency, impartiality, non-competition, etc.) with the view to identify the transactions between related parties?	✓		Petrom has internal regulations in place and submits reports on transactions with related parties to the Financial Supervisory Authority and to the Bucharest Stock Exchange. During 2013 Petrom has revised the internal processes and databases in order to achieve the highest standards in reporting.
P17	R36	Has the Issuer approved a procedure regarding the internal flow and disclosure to third parties of the documents and information referring to the Issuer, considering especially inside information?	✓		Petrom has internal regulations in place for such matters.
P18	R37/ R38	Does the Issuer carry on activities regarding the Issuer's social and environmental responsibility?	✓		Petrom conducts various activities regarding social and environmental responsibility. Please see the Annual Report's section relating to community involvement.

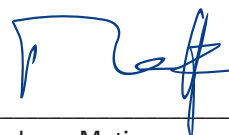
Declaration of the management

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2013, its financial performance and cash flows for the year then ended, in accordance with applicable accounting standards, and that the Directors' report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Group.

Bucharest, March 25, 2014
The Executive Board



Mariana Gheorghe
Chief Executive Officer
President of the EB



Andreas Matje
Chief Financial Officer
Member of the EB



Gabriel Selischi
Member of the EB
Responsible for E&P



Cristian Secoșan
Member of the EB
Responsible for G&P



Neil Anthony Morgan
Member of the EB
Responsible for R&M

Abbreviations and definitions

ANRE	Romanian Energy Regulatory Authority
bbl	barrel(s), i.e. 159 liters
bbl/d	bbl per day
bcf	billion cubic feet; 1,000 standard cubic meters = 35.3147 bcf for Romania or 34.7793 bcf for Kazakhstan
bcm	billion cubic meters
bn	billion
boe, kboe	barrels of oil equivalent, thousand barrels of oil equivalent
boe/d, kboe/d	boe per day, kboe per day
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
Capital employed	Equity including minorities + net debt
cbm	cubic meter(s)
CCS	Current cost of supply
CEO	Chief Executive Officer
Co&O	Corporate and Other
CO ₂	Carbon Dioxide
CV	Curriculum Vitae
E&P	Exploration and Production
EB	Executive Board
EBIT	Earnings Before Interest and Taxes
EBRD	European Bank for Reconstruction and Development
EMEPRL	ExxonMobil Exploration and Production Romania Limited
EU, EUR	European Union, euro(s)
EPS	Earnings per share
Equity ratio	Stockholders' equity divided by balance sheet total expressed as a percentage
EURIBOR	Euro Interbank Offered Rate
FRD	Field redevelopment
FX	Foreign Exchange
G&P	Gas and Power
Gearing ratio	Net debt divided by equity expressed as a percentage
GDP	Gross Domestic Production
GHG	Green House Gas
GMS	General Meeting of Shareholders
H ₂	Hydrogen
HSSE	Health, Safety, Security and Environment
HFO	Heavy Fuel Oil
IASB	International Accounting Standards Board
IFRSs; IASs	International Financial Reporting Standards; International Accounting Standards
IFRIC	International Financial Reporting Standards Interpretations
IMF	International Monetary Fund
ISO	International Organization for Standardization
ISO 31000	International standard for risk management
IT	Information Technology
lhs, rhs	left hand side, right hand side
LPG	Liquefied Petroleum Gas
LTIR	Lost time injury rate = Average injury frequency with one or more lost workday related to the working time performed
m, km	meter(s), kilometer(s)
mn	million
MW; MWh	megawatt(s); megawatt hour(s)
n.m.	not meaningful

Net debt	Interest bearing debts and financial lease liabilities less liquid funds (cash and cash equivalents)
NGL	Natural Gas Liquids
NOPAT	Net Operating Profit After Tax. Profit on ordinary activities after taxes plus net interest on net borrowings, +/- result from discontinued operations, +/- tax effect of adjustments
OECD	Organization for Economic Co-operation and Development
OGMS	Ordinary General Meeting of Shareholders
OPCOM	The administrator of the Romanian electricity market
OPEC	Organization of Petroleum Exporting Countries
Q	quarter
R&M	Refining and Marketing
ROACE	Return On Average Capital Employed = NOPAT / Average Capital Employed (%)
RON	New Romanian leu
RRR	Reserve Replacement Rate
S.A.	JSC - Joint stock company (Societate pe Acțiuni)
S.R.L.	Ltd - Limited liability company (Societate cu Răspundere Limitată)
TOC	Tasbulat Oil Corporation
t, kt	metric tonne(s), thousand tonnes
t/y	tonne(s)/year
toe	tonne(s) of oil equivalent
TWh	terawatt hour(s)
USD	United States dollar(s)

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Independent auditor's report and consolidated financial statements



Independent auditor's 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, 2012	December 31, 2013
ASSETS			
Intangible assets	5	966.51	814.73
Property, plant and equipment	6	28,512.59	30,659.38
Investments in associated companies	7	39.44	42.71
Other financial assets	8	2,357.23	2,143.45
Other assets	9	34.72	22.34
Deferred tax assets	17	866.16	877.28
Non-current assets		32,776.65	34,559.89
Inventories	10	2,250.54	1,996.29
Trade receivables	8	1,968.09	1,429.24
Other financial assets	8	98.93	302.67
Other assets	9	210.82	314.67
Cash and cash equivalents		666.65	1,408.24
Current assets		5,195.03	5,451.11
Assets held for sale	11	172.94	35.87
Total assets		38,144.62	40,046.87
EQUITY AND LIABILITIES			
Share capital	12	18,983.37	5,664.41
Reserves		4,454.90	21,006.10
Stockholders' equity		23,438.27	26,670.51
Non-controlling interests		(32.93)	(28.83)
Equity		23,405.34	26,641.68
Provisions for pensions and similar obligations	13	241.33	303.95
Interest-bearing debts	14	1,717.05	1,253.73
Provisions for decommissioning and restoration obligations	13	5,866.10	5,778.13
Other provisions	13	644.88	601.80
Other financial liabilities	15	168.29	289.28
Deferred tax liabilities	17	8.24	11.05
Non-current liabilities		8,645.89	8,237.94

The notes on pages 87 to 150 form part of these consolidated financial statements.

	Notes	December 31, 2012	December 31, 2013
Trade payables	15	2,880.08	2,958.26
Interest-bearing debts	14	524.64	189.04
Current income tax payable		261.21	258.76
Other provisions and decommissioning	13	1,210.27	651.84
Other financial liabilities	15	360.85	318.87
Other liabilities	16	764.96	790.37
Current liabilities		6,002.01	5,167.14
Liabilities associated with assets held for sale	11	91.38	0.11
Total equity and liabilities		38,144.62	40,046.87

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



Mariana Gheorghe,
Chief Executive Officer



Andreas Matje,
Chief Financial Officer



Gabriel Selischi,
E.B. Member,
Exploration & Production



Cristian Secoșan,
E.B. Member,
Gas & Power



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



Alina Popa,
Director Finance Department



Eduard Petrescu,
Head of Financial Reporting

The notes on pages 87 to 150 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, 2012	December 31, 2013
Sales revenues	26	26,258.13	24,185.22
Direct selling expenses		(696.04)	(646.20)
Cost of sales		(17,305.65)	(15,484.69)
Gross profit		8,256.44	8,054.33
Other operating income	18	186.58	298.26
Selling expenses		(1,172.77)	(1,090.38)
Administrative expenses		(242.12)	(193.56)
Exploration expenses		(327.72)	(423.45)
Other operating expenses	19	(1,038.41)	(687.34)
Earnings before interest and taxes (EBIT)		5,662.00	5,957.86
Income from associated companies	21	2.18	4.40
Interest income	22	59.86	205.90
Interest expenses	22	(825.59)	(360.20)
Other financial income and expenses	23	(72.19)	(109.36)
Net financial result		(835.74)	(259.26)
Profit from ordinary activities		4,826.26	5,698.60
Taxes on income	24	(880.16)	(874.56)
Net income for the year		3,946.10	4,824.04
thereof attributable to stockholders of the parent		3,953.31	4,820.85
thereof attributable to non-controlling interests		(7.21)	3.19
Basic and diluted earnings per share in RON	25	0.0698	0.0851

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



Mariana Gheorghe,
Chief Executive Officer



Andreas Matje,
Chief Financial Officer



Gabriel Selischi,
E.B. Member,
Exploration & Production



Cristian Secoșan,
E.B. Member,
Gas & Power



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



Alina Popa,
Director Finance Department



Eduard Petrescu,
Head of Financial Reporting

The notes on pages 87 to 150 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)

	December 31, 2012	December 31, 2013
Net income for the year	3,946.10	4,824.04
Exchange differences from translation of foreign operations	3.79	(4.36)
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	155.68	(4.36)
Income tax relating to components of other comprehensive income	(25.61)	2.73
Other comprehensive income for the year, net of tax	130.07	(1.63)
Total comprehensive income for the year	4,076.17	4,822.41
thereof attributable to stockholders of the parent	4,083.30	4,818.27
thereof attributable to non-controlling interests	(7.13)	4.14

The notes on pages 87 to 150 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)

Consolidated statement of changes in equity for the year ended December 31, 2013

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
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.

Consolidated statement of changes in equity for the year ended December 31, 2012

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
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 87 to 150 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, 2012	December 31, 2013
Cash flow from operating activities			
Profit before taxation		4,826.26	5,698.60
Adjustments for:			
Interest expenses and other financial expenses	22, 23	361.39	138.10
Interest income	22	(38.86)	(82.32)
Net movement in provisions and allowances for:			
- Inventories		31.33	(59.24)
- Receivables		207.07	30.95
- Pensions and similar liabilities		50.13	66.29
- Decommissioning and restoration obligations		109.15	56.54
- Other provisions for risk and charges		(625.04)	(154.85)
Discounting / Write-off of receivables and other similar items		263.54	0.56
Income from investments in associates	21	1.47	(3.27)
(Gain)/Loss on disposal of subsidiaries	30	2.08	0.93
Cash flow hedge recycled through income statement		83.94	-
(Gain)/Loss on disposals of fixed assets	18, 19	74.38	(1.50)
Depreciation, amortization and impairment expense	5, 6, 20	2,852.22	3,354.72
Other non-cash items		32.75	48.25
Interest received		40.86	38.36
Interest paid		(108.65)	(102.54)
Tax on profit paid		(985.70)	(904.74)
Cash generated from operating activities before working capital movements		7,178.32	8,124.84
(Increase)/Decrease in inventories		(25.46)	145.53
(Increase)/Decrease in receivables and other assets		(161.54)	339.72
Increase/(Decrease) in liabilities		194.12	(562.10)
Net cash generated from operating activities		7,185.44	8,047.99

The notes on pages 87 to 150 form part of these consolidated financial statements.

	Notes	December 31, 2012	December 31, 2013
Cash flow from investment activities			
Purchase of tangible and intangible assets		(5,129.65)	(4,995.37)
Proceeds from sale of fixed assets		64.42	47.14
Acquisition / set-up of subsidiaries	30	-	(0.10)
Proceeds from sale of Petrom Group companies less cash and cash equivalents	30	9.92	53.74
Net cash used for investment activities		(5,055.31)	(4,894.59)
Cash flow from financing activities			
Net repayment of loans	30	(478.15)	(837.34)
Dividends paid		(1,741.39)	(1,574.31)
Net cash used for financial activities		(2,219.54)	(2,411.65)
Effect of foreign exchange rate changes on cash and cash equivalents		2.22	(0.16)
Net increase/(decrease) in cash and cash equivalents		(87.19)	741.59
Cash and cash equivalents at the beginning of the year		753.84	666.65
Cash and cash equivalents at the end of the year		666.65	1,408.24

The notes on pages 87 to 150 form part of these consolidated financial statements.

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

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

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

Consequently, the free float increased to 9.36%.

Statement of compliance

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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

in the current period, but had no significant effects on the financial statements:

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

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

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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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.

► 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.

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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

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

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

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

► IAS 19 Defined Benefit Plans (Amended): Employee Contributions

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

► IFRIC Interpretation 21: Levies

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

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

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

For companies which apply IFRS as 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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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.

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.

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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.

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, Brazil 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

1. LEGAL PRINCIPLES AND BASIS OF PREPARATION (continued)

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.

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 Distribuție Gaze SRL

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

2. CONSOLIDATION (continued)

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.

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,

2. CONSOLIDATION (continued)

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.

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.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

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 reliably 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.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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%.

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

current best estimate of the cost at its present value, using the same discount rate as for the related provisions.

Changes in the assumptions related to decommissioning costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment (for 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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

l) 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.

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.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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

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

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

Production taxes

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

m) Revenue recognition

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

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

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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

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.

5. INTANGIBLE ASSETS

	Concessions, licenses, and other intangible assets	Oil and gas assets with unproved reserves	Total
COST			
Balance as at January 1, 2013	1,813.76	795.69	2,609.45
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	(4.39)	-	(4.39)
Balance as at December 31, 2013	1,836.71	782.95	2,619.66
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2013	1,268.69	374.25	1,642.94
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	(2.89)	-	(2.89)
Balance as at December 31, 2013	1,446.47	358.46	1,804.93
CARRYING AMOUNT			
As at January 1, 2013	545.07	421.44	966.51
As at December 31, 2013	390.24	424.49	814.73

6. PROPERTY, PLANT AND EQUIPMENT

	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
COST							
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.

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

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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)

Liquidity term			
	December 31, 2013	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

Liquidity term			
	December 31, 2012	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

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.

8. RECEIVABLES AND OTHER FINANCIAL ASSETS (continued)

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

	Trade receivables	Other financial assets	Total
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:

Trade receivables	December 31, 2012	December 31, 2013
Up to 60 days overdue	251.23	121.25
61 to 120 days overdue	9.55	2.82
More than 120 days overdue	7.34	8.30
Total	268.12	132.37

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

9. OTHER ASSETS

The carrying value of other assets was as follows:

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

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

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

10. INVENTORIES

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

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

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.

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

12. STOCKHOLDERS' EQUITY (continued)

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.

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.

13. PROVISIONS (continued)

Details on the Decommissioning and restoration obligations are as follows:

	2012	2013
Balance as at January 1	6,222.22	6,228.04
Exchange differences	0.72	(3.15)
Changes in consolidated Group	-	-
Revisions in estimates	(256.04)	(251.12)
Unwinding effect	433.66	373.83
Settlements current year	(172.52)	(199.36)
Balance as at December 31	6,228.04	6,148.24

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	Total	less than 1 year	over 1 year
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	190.48	85.31	105.17
Total	883.53	281.73	601.80
December 31, 2012	Total	less than 1 year	over 1 year
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	611.61	493.82	117.79
Total	1,493.21	848.33	644.88

13. PROVISIONS (continued)

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.

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.

14. INTEREST-BEARING DEBTS

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

Borrower	Lender	December 31, 2012	December 31, 2013
Interest-bearing debts short-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	411.20	95.07
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	22.14	-
OMV Petrom S.A.	European Investment Bank (c)	84.36	85.42
OMV Petrom S.A.	Raiffeisen Bank S.A. (d)	0.02	-
Tasbulat Oil Corp.	Citibank Kazakhstan (e)	-	0.63
	Accrued interest	13.11	9.38
OMV Petrom S.A.	Prepayments in relation with loan amounts drawn	(6.19)	(1.46)
Total interest bearing debts short term		524.64	189.04
Interest-bearing debts long-term			
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	916.74	564.18
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	44.29	-
OMV Petrom S.A.	European Investment Bank (c)	773.97	698.33
OMV Petrom S.A.	Prepayments in relation with loan amounts drawn	(17.95)	(8.78)
Total interest-bearing debts long term		1,717.05	1,253.73
Total interest-bearing debts		2,241.69	1,442.77

(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

14. INTEREST-BEARING DEBTS (continued)

(equivalent of EUR 15.00 million) were fully reimbursed during 2013.

- (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 Ţiriac 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

14. INTEREST-BEARING DEBTS (continued)

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 Serbia 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 Serbia 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.
- (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.

14. INTEREST-BEARING DEBTS (continued)

- (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 Serbia 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.

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

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:

	< 1 year	1-5 years	> 5 years	Total
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
December 31, 2012	< 1 year	1-5 years	> 5 years	Total
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

	December 31, 2013	less than 1 year	over 1 year
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	-
	December 31, 2012	less than 1 year	over 1 year
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	-

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

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:

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

18. OTHER OPERATING INCOME

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

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

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

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.

20. COST INFORMATION

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

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

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:

	December 31, 2012	December 31, 2013
Depreciation and amortization	2,608.15	2,823.90
Net impairment tangible and intangible assets	244.07	530.82
Total depreciation, amortization and impairment	2,852.22	3,354.72

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).

21. INCOME FROM ASSOCIATED COMPANIES

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

22. INTEREST INCOME AND INTEREST EXPENSES

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

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

24. TAXES ON INCOME

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

The reconciliation of deferred taxes is as follows:

	2012	2013
Deferred taxes January 1	795.51	856.62
Deferred taxes December 31	856.62	867.87
Changes in deferred taxes	61.11	11.25
Deferred taxes on valuation of hedges charged directly to other comprehensive income	(24.30)	-
Changes in consolidated Group, exchange differences and similar items	1.81	(11.14)
Deferred taxes in the Income Statement	83.60	22.39
Reconciliation		
Profit before taxation	4,826.26	5,698.60
Income tax rate applicable for Parent company	16.00%	16.00%
Profits tax based on income tax rate of the Parent	772.20	911.78
Effect of differing foreign tax rates	(15.96)	(31.06)
Profits tax based on applicable rates	756.24	880.72
Tax effect of permanent differences	123.92	(6.16)
Profits tax expense in the Income Statement	880.16	874.56

24. TAXES ON INCOME (continued)

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.

25. EARNINGS PER SHARE

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

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

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.

26. SEGMENT INFORMATION (continued)

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.

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

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

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

*) 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.

26. SEGMENT INFORMATION (continued)

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.

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

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

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

*) 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.

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.

27. AVERAGE NUMBER OF EMPLOYEES

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

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	Purchases	Balances payable
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.		803.25	126.94

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

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

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

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 Agrotrade 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.

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 Mehedinți S.A.	37.40%	NAE	Fuel distribution	Romania
Congaz S.A.	28.59%	EM	Natural gas distribution	Romania
Asociația română pentru relația 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.

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.

30. CASH FLOW STATEMENT INFORMATION (continued)

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

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

Gain / (Loss) on disposal of subsidiaries:

	December 31, 2012	December 31, 2013
Proceeds on disposal of subsidiaries	0.10	116.02
Net assets disposed of	5.53	(116.95)
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	(2.08)	(0.93)

Net cash flow on disposal of subsidiaries:

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

30. CASH FLOW STATEMENT INFORMATION (continued)

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).

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.

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

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

	Level 1	Level 2	Level 3	Total
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	Fair value	Carrying amount	Difference
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.

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

32. COMMITMENTS AND CONTINGENCIES (continued)

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.

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

34. RISK MANAGEMENT (continued)

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 $\text{net debt} / (\text{equity}) \times 100$ 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.

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 and integrated process in line with ISO 31000, by internal risk reports and regular assessments which analyze all risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market and financial risk category plays an important role in 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.

34. RISK MANAGEMENT (continued)

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.

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

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.

34. RISK MANAGEMENT (continued)

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)	
	2012	2013	2012	2013
Profit/ (Loss)	33,909	42,379	(51,453)	(28,543)
Other comprehensive income	16,638	16,638	-	-

-10% decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2012	2013	2012	2013
Profit/ (Loss)	(33,909)	(42,379)	51,453	28,543
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.

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).

34. RISK MANAGEMENT (continued)

Analysis for change in interest rate risk

Variable rate borrowings:

	Balance as at		Effect of 1% change in interest rate	
	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
Short term borrowings	517.72	181.12	5.18	1.81
Long term borrowings	1,735.00	1,262.51	17.35	12.63

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.

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 80 to page 150, 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.



Mariana Gheorghe,
Chief Executive Officer



Andreas Matje,
Chief Financial Officer



Gabriel Selischi,
E.B. Member,
Exploration & Production



Cristian Secoșan,
E.B. Member,
Gas & Power



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



Alina Popa,
Director Finance Department



Eduard Petrescu,
Head of Financial Reporting

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Image Glossary



Brazî power plant

2013 was the first full year of commercial operations of the 860 MW Brazî power plant, onstream since August 2012. With a net electrical output of 2.7 TWh, the plant covered approximately 5% of Romania's electricity production and contributed with 9% to the balancing market. Due to its operational flexibility, the plant was able to operate over a broad load range, from ~200 MW to 860 MW with fast start-up and shutdown times, thus contributing to the stability of the national energy system. In 2013, the net availability of the plant was 90%, reflecting the one-month planned shutdown for the installation of a gas treatment plant in April.



Bacău fuels terminal

In 2013, we finalized the revamping of the Bacău fuels terminal, the fourth such unit commissioned in the last five years. The EUR 18 mn investment dedicated to Bacău terminal is part of the storage infrastructure modernization program to build three new terminals and modernize another three terminals. Oil products in the Bacău terminal are stored in reservoirs above the ground which are equipped with automated systems for volume and temperature measurement, automated system for protection against over-filling and a fixed fire extinguisher system. The reservoirs have steel walls and are connected to the automated detection system for leaks and cracks. The loading of the products in road tanks is completely automated and controlled by an automated system.



Black Sea

In the Black Sea, Petrom produces from five commercial fields: Lebăda Est, Lebăda Vest, Sinoe, Pescăruș and Delta. A workover campaign commenced in early 2013 at four offshore wells has significantly contributed to the stabilization and gradual increase of Group's hydrocarbon production during the second half of the year. Together with our co-venturer ExxonMobil Exploration and Production Romania Limited (EMEPR), we completed the largest 3D seismic acquisition in the Romanian sector of the Black Sea, with more than 6,000 km² covered in the Neptun Deep area. Moreover, we performed additional 1,600 km² seismic study in the shallow waters of the block, fully operated by Petrom. In the second half of the year, we continued with the seismic data interpretation.



Symphony seismic vessel

CGG's high-capacity 3D seismic vessel was contracted by the joint venture OMV Petrom S.A.-ExxonMobil Exploration and Production Romania Limited for the acquisition of a 3D seismic survey on the Neptun Deep block in the Romanian sector of the Black Sea. The survey was conducted from December 2012 until June 2013. The Symphony operated with 12 x 6 km Sercel Sentinel® streamers and the Sercel Nautilus® streamer steering, depth control and positioning system to acquire the more than 6,000 km² survey.



Midia gas treatment plant

The C3+ recovery plant within Midia terminal was commissioned in September 2009, being designed and built by Linde AG Germany. State-of-the-art process safety standards were incorporated into the design and the plant is supported by safe controls, fire and gas and emergency shutdown systems and environment friendly facilities. The unit has a daily gas processing capacity of 3.8 mn cbm. All offshore gas production of Petrom is processed here, and then the gas is delivered into the national gas system, while the C3+ is used as refining feedstock. In addition, the Midia gas plant boasts its own gas fired power generation plant with a capacity of 10 MW inclusive a fully redundant 200 t/d steam generation capacity.

Petrom Group in figures 2013



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