ANNUAL REPORT 2017

OF THE BOARD OF DIRECTORS
FOR THE FINANCIAL YEAR 2017

Company
ROMPETROL RAFINARE S.A.

Registered office: **215 Năvodari Blvd., Administrative Pavilion, Năvodari, Constanţa county**

Nr. Telephone/Facsimile No.: **+(40) 241 506100**
+(40) 241 506930

Tax Identification Number at the Trade Register Office by the Law Court of Constanţa: 1860712
Registered with the Trade Register under No.: J13/534/1991
The shares of Rompetrol Rafinare S.A. are traded in the Standard Category of the BUCHAREST STOCK EXCHANGE[1]
Subscribed and paid-in share capital: 4,410,920,572.60 lei

The main characteristics of the securities issued by Rompetrol Rafinare S.A.:

- **Dematerialized nominal common shares, the record of which is held by the Depozitarul Central S.A. Bucharest**
  - **Total number of shares: 44,109,205,726**
  - **Nominal value: 0.10 lei**
  - **Symbol of shares at the Bucharest Stock Exchange: RRC**

[1] *Starting 5th of January 2015 the shares of Rompetrol Rafinare S.A. are traded in the Standard Category of the Bucharest Stock Exchange ("BSE"). Up to this date they have been traded within category II od BVB.*

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MAJOR PERFORMANCE IN 2017, IN AN UNSTABLE GLOBAL ECONOMIC ENVIRONMENT:

Petromidia refinery managed to achieve in 2017 a very good operational performance, at historically high levels for its main technological and operational parameters such as:

- ✓ total feedstock processed of ~5.66 mil tons - record total feedstock processed since 1979, an equivalent of 16.8 kt/day of operation total feedstock processed, 5% improvement against last year;
- ✓ record for white products production 4.88 millions tons;
- ✓ record for auto gasoline production of 1.46 millions tons;
- ✓ record for diesel production of 2.74 millions tons;
- ✓ record for propylene production of 133 thousand tons;
- ✓ technological loss of 0.85%wt;
- ✓ jet yield (4.4 %), equivalent of 251 thousand tons production;
- ✓ Energy Intensity Index 99.9%
- ✓ mechanical availability 96.47%
- ✓ operational availability 93.3%.

In respect of Vega refinery (the oldest processing unit operating in Romania (since 1905) and the only domestic producer of bitumen and hexane), the total throughput was 372.954 thousand tons in 2017, higher by 5.26% compared with the same period of last year when the total throughput was 354.306 thousand tons for 2016.

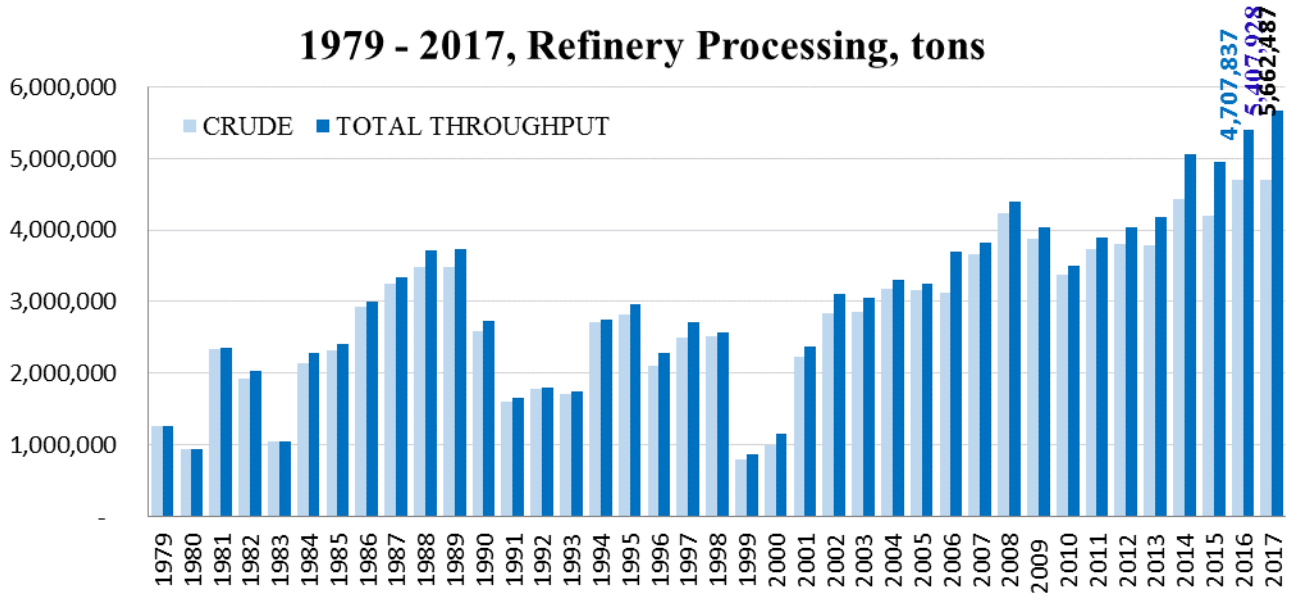
The refining capacity utilization for Vega refinery was 113% in 2017, higher by 5.65% compared with the same period last year.

Vega refinery also managed to achieve in 2017 very good operational performance results, at historical high levels, of which the following are emphasized:

- ✓ historical record for feedstock processed of 373 thousand tons higher by 19 thousand tons as against last year;
- ✓ historical record for Bitumen production and sales of 96 thousand tons;
- ✓ historical record for ecological solvents production of 41 thousand tons;
- ✓ Hexane production reached 80 thousand tons;
- ✓ lowest technological loss of ~ 1%wt;

The gross cash refinery margin improved in 2017 compared with last year by 20% reaching a level of 50.9 $/t as against 42.5 $/t in 2016. The company's financial results were positively influenced by favorable market conditions and by production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization, programs that started in the year 2014 and successfully continued in 2015, 2016 and 2017 (out of which reduction in steam and power consumption are the most significant).

The evolution of the processed feedstock starting from 1979 (the year of starting up the first installation within the Petromidia Refinery - Atmospheric and Vacuum Refinement) up to 2017 is rendered by the graphic below:



IMPORTANT PROJECTS INITIATED BY THE COMPANY – DOLPHIN PROJECT

In 2014, a consultancy services contract was finalized, having as scope the detailed analysis of Petromidia refinery and of main companies related to the functioning of the refinery, on the following activity flows: Supply Chain Planning, Production and Engineering Processes, Energy, Maintenance, Organizational Efficiency.

Following the provided analysis provided it was initiate the Dolphin Project with the scope to increase the operational results of Petromidia and Vega Platform and to identify new opportunities and future projects in order to meet the long term strategy of both refineries, established at group level.

The initiatives defined in Dolphin Project during 2015-2016 were continued in 2017 also within the 5 workstreams: No Cost, Capex, Continuous Improvement, Maintenance and Organizational Efficiency.
The conclusions resulted following the analysis rolled-out by the consultancy team were developed and implemented within the 5 workstreams. The role of the consultancy team was mainly focused on monitoring the initiatives' implementation and support the workstreams for the project management activities.

The total benefits achieved during 2017 from initiatives in all workstreams exceeded with 5.31 millions USD the 4.8 millions USD benefit planned for 2017.

In addition to the financial benefit, the project had a significant impact on the working methods of the project teams improving communication, collaboration and teamwork, as well as their project management skills (benefits planning, drafting clear and detailed action plan, clear process for analyzing and implementing ideas, according to the specifics of each stream, recurrent meetings to track progress, monthly benefits reporting and recognition of achievements).

The organizational improvements generated by the Dolphin Project, the best practices as well as lessons learned and recommendations of the consultancy team will be used in the next phase of Dolphin Project, planned for 2018-2020, which will be rolled-out with internal resources, without the support of a consultancy team.

1. THE ANALYSIS OF THE ACTIVITY OF THE COMPANY

1.1. a) The description of the basic activity of ROMPETROL RAFINARE S.A.

Rompetrol Rafinare, a company member of the KMG International Group, operates the Petromidia refinery located in Navodari, Constanta county, as well as the Vega Refinery in Ploieşti, Prahova county.

As of 01.01.2014, Rompetrol Rafinare SA took over the operational plants (polymer and utilities production) of Rompetrol Petrochemicals SRL.

In accordance with the provisions of the Articles of Incorporation of the Company Rompetrol Rafinare S.A. (Hereinafter "The Company"), the main object of activity is "*manufacturing of the products obtained from the processing of crude oil* " (CAEN code 192), and the main object of activity is represented by the "manufacturing of the products obtained from the processing of crude oil" (code CAEN 1920). Other secondary objects of activity are being detailed in the Articles of Incorporation of the Company.

Rompetrol Rafinare holds the quality as authorized warehousekeeper, in accordance with the applicable tax legislation. The Refineries Petromidia and Vega are authorized as production tax warehouses being manufacturers of energetic products, observing the tax rules governing the production of energetic products.

Rompetrol Rafinare also holds Integrated Environmental Authorizations, issued by the competent environmental authorities in accordance with the legislation regarding the environment, for the 2 operated work points: Petromidia (work points Rafinărie and Petrochimie) and Vega.

I) The Production Activity in the Year 2017

Rompetrol Rafinare is a business unit composed by three production capacities: Petromidia (located in Năvodari) and Vega (located in Ploieşti) refineries and Petrochemicals plant (located in Năvodari).

Rompetrol Rafinare - work point Năvodari (Petromidia Refinery)

The production plan of ROMPETROL RAFINARE S.A. for year 2017 was designed for a total processing output of 5,652,205 tons, out of which 4,921,984 tons of crude oil and 730,220 tons of other raw materials. This schedule has been the basis for the preparation of the income and expenses budget for the year 2017.

The total processing carried-out during 2017 amounts to 5,662,487 tons, out of which 4,706,412 tons of crude oil and 956,.075 tons other raw materials.
This processing represents 100.18 % of the schedule set up for the budget of the year 2017.

Tons

2017	Budget	Achieved
Total throughput out of which:	5,652,205	5,662,487
Processed crude oil	4,921,984	4,706,412
Other raw materials	730,220	956,075

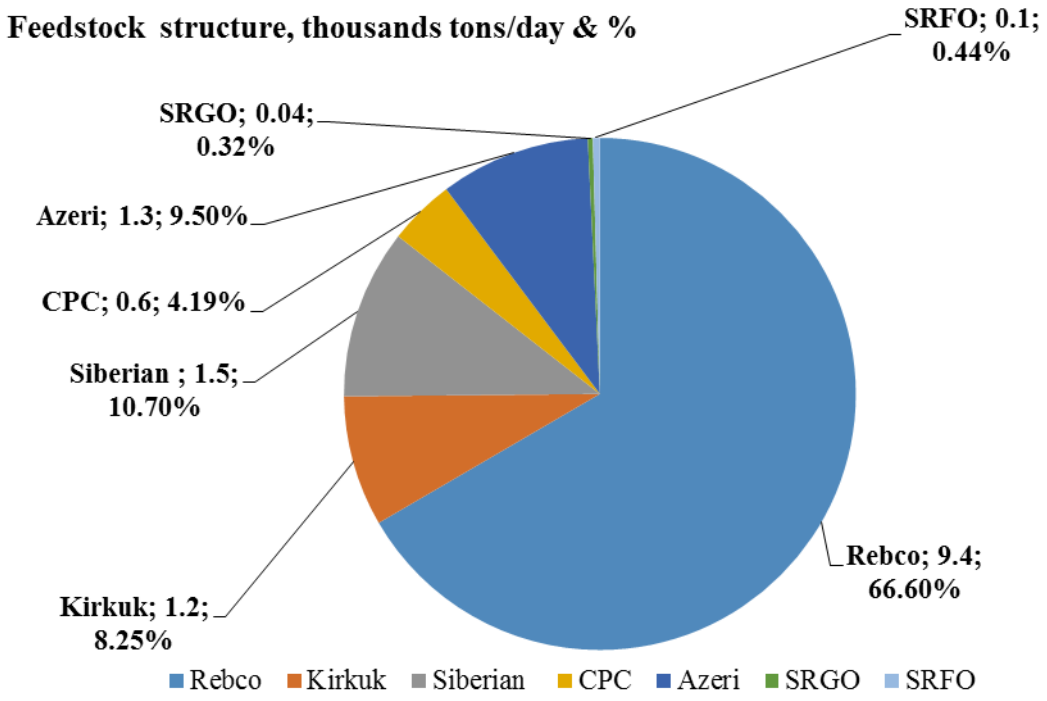
The situation of processing, on quarters, is given in the table below:

Processing	1st quarter	2nd quarter	3rd quarter	4th quarter	Total 2017
Plan (tons)	1,374,685	1,531,807	1,195,183	1,195,183	5,652,205
Achieved (tons)	1,200,665	1,221,513	1,559,665	1,680,644	5,662,487
Achieved/Budget (%)	87.34	79.74	100.59	140.62	100.18

The action of attracting other raw materials in the processing process matches the strategy of ensuring a continuous operation at the best load of the plants as good as possible (eg.: diesel fuel and black oil).

From the operational point of view, the refinery has been working at full output of 16,763 tons of raw material per day, related to the actually worked time, registering record performances.

Petromidia Refinery has succeeded in capturing market opportunities, diversifying the structure of raw materials processed, considering technological and operational flexibility of the refinery.



The yields for diesel ranked at 48.32% in 2017, while the yields for fuels (gas, diesel, Jet, automotive LPG fuel) reached the level of 76.01% in 2017, representing the best results in the history of the refinery.

Petromidia Refinery has produced 2.73 million tons of diesel in 2017, the highest level it has ever reached since its commissioning in 1979.

The reduction of the operation costs as well as the increase of mechanical and operational availability allowed an improvement of the Energy Intensity Index, being at 99.97 points.

The improvements of the operational results as well as registering the historical records in 2017 by Petromidia refinery were supported by the completion in 2012 of the wide program of revamping and increasing the processing output to 5 million tons per annum, as well as of the technological works performed during the planned overhaul in March – April 2013 as well as during the general overhaul which takes place, in compliance with the group's management decision, once every 5 years, performed in October 2015.

Following the general overhaul performed in 2015 and the implementation of the initiatives within „Dolphin" project, the equipment functioned in 2017 at a high level of safety, low maintenance cost, featuring a mechanical availability of 96.47%.

The operation of the refinery facilities shall be carried out in accordance with the highest performance standards ensuring at the same time the fulfilment of the commitments assumed relating to the environmental protection.

The structure of the physical production as compared to the budget, in 2017, is as follows:

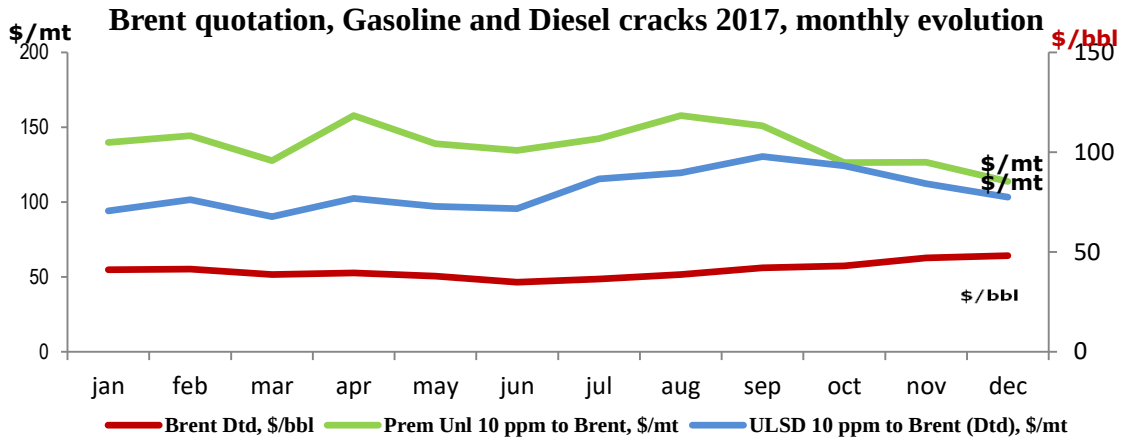
YEAR 2017	Unit of measure	Budget	Achieved
Finished Products	tone	**5,504,909**	**5,529,859**
Gasoline	tone	1,416,743	1,461,969
Diesel Fuel	tone	2,760,973	2,736,225
Jet	tone	247,100	250,655
Fuel Oil	tone	130,473	140,136
Propylene	tone	127,919	132,538
LPG	tone	241,114	241,283
Coke	tone	270,688	248,852
Sulphur	tone	52,589	52,631
Other products	tone	259,310	265,871
Total consumption:	tone	147,296	141,969
White products achieved	%	85.79	86.29

In 2017, a purchase price for the crude oil of USD 325.97 /ton was budgeted, with an average final price of USD 395.41 /ton.

The average value of the finished products was budgeted for the year 2017 at USD 398.91 /ton and an average price of USD 493.93 /ton has been achieved.

As you can notice, the evolution of the crude oil market compared to the budget forecast registered an increase at the level of the year of 21.30%, and the price of oil products followed the same increasing trend compared to the budget, the increase being of 23.82%.

During 2017, the gas crack exceeded the diesel one in average with approx. USD 58.02 /ton, the trend being relatively constant during January – July 2017, being slightly modified decreasing during August – December 2017.



Source: Platts

The quantitative structure of the deliveries is summarized in the following table:

OIL PRODUCTS		DELIVERIES					
	TOTAL DELIVERIES	DOMESTIC *		EXPORT		transfer	
	[tons]	[tons]	[%]	[tons]	[%]	[tons]	[%]
Gasoline	1,258,494	314,475	24.99	944,019	75.01	0	0.00
Gasoline for chemical use	191,223	0	0.00	18,181	9.51	173,042	90.49
Petroleum	252,385	223,127	88.41	16,699	6.62	12,559	4.98
Auto-Diesel Fuel	2,722,905	1,590,596	58.42	1,132,309	41.58	0	0.00
Fuel oil	138,656	4,507	3.25	13,235	9.54	120,914	87.20
Vacuum distillation	11,369	0	0.00	11,369	100.0	0	0.00
Propylene	132,538	0	0.00	0	0.00	132,538	100.00
Liquefied Petroleum Gas	241,367	241,367	100.0	0	0.00	0	0.00
Petroleum coke	263,194	122,241	46.45	140,953	53.55	0	0.00
Petroleum Sulphur	50,011	87	0.17	49,924	99.83	0	0.00
Other products	114,713	52,562	45.82	0	0.00	62,151	54.18
TOTAL	**5,376,855**	**2,548,961**	47.41	**2,326,689**	43.27	**501,204**	9.32

** The quantities delivered for domestic consumption include the petroleum products marketed on the domestic market. The deliveries to Vega and Petrochemical are included under the heading "transfer"*

Rompetrol Rafinare – work point Vega Refinery

The production schedule of ROMPETROL RAFINARE S.A., work point Vega Refinery for the year 2017 has been designed for a total processing output of 340,525 tons, out of which 340,461 tons raw materials of KMG International Group and 64 tons raw materials acquired outside the Group.
This schedule supported the issue of the income and expenses budget, for year 2017.
The processing carried-out in 2017 amounts to 372,954 tons of raw materials, out of which 372,794 tons of KMG International Group and 161 tons non-Group.
The processing represents 109.52 % compared to the schedule established for the budget of year 2017, according to the available raw materials of Petromidia Refinery and correlated to the market demand.

The situation of the processing, on quarters, is given in the table below:

Throughput	1st quarter	2nd quarter	3rd quarter	4th quarter	Total 2017
Achieved (tons)	60,834	91,183	111,580	109,357	372,954
Budget (tons)	67,172	96,343	104,045	72,964	340,525
Achieved/Budget (%)	90.6%	94.6%	107.2%	149.9%	109.5%

In 2017 the processed quantity was 9.5% higher than budgeted quantity, the monthly average being 31,080 tons as compared to 28,377 tons according to the budget.

The structure of the physical production as compared to the budget, in 2017, is as follows:

YEAR 2017	Budget [tons]	Achieved [tons]
Finished goods	**335,343**	**364,644**
Gasoline + solvents	134,048	148,702
N-Hexane	85,393	79,507
White spirit and P Fuel	9,297	8,437
Calor Extra I	3,796	4,553
Light oil fuel type III	3,345	2,615
Heavy fuel oil	18,038	24,457
Bitumen	81,426	96,373

From the comparison Budget – Achieved, the concern is noted regarding the obtaining of petroleum products in accordance with the market requirements.

In 2017, the energy consumption reported to throughput ton suffered a decrease with approximate 2% compared to year 2016, the influence resulted from the different functioning of the previous year plants, as well as of the measures taken to reduce the consumptions.

The quantitative structure of the deliveries is summarized in the following table:

PRODUCT	TOTAL DELIVERIES [tons]	DOMESTIC		EXTERNAL	
		[tons]	[%]	[tons]	[%]
Products delivered	**371.145**	**162.698**	**43,84**	**208.447**	**56,16**
Gasoline + solvents	151,712	29,066	19.16	122,647	80.84
N-Hexane	81,968	3,309	4.04	78,659	95.96
White Spirit	8,302	6,678	80.45	1,623	19.55
Diesel fuel	4,714	4,714	100.00	-	-
Light oil fuel type III	2,751	2,751	100.00	-	-
Heavy fuel oil	25,228	19,710	78.13	5,518	21.87
Bitumen	96,470	96,470	100.00	-	-

Rompetrol Rafinare – work point Năvodari (the Petrochemical plant)

The production plan of ROMPETROL RAFINARE S.A. – Petrochemical Plant for year 2017 was issued for the functioning of the Polypropylene (PP) and low pressure Polypropylene (LDPE) plants during year 2017.
This schedule has been the basis for the preparation of the income and expenses budget for the year 2017.
The polymer production realized in year 2017 amounted to 146,876 tons, out of which PP – 84,777 tone and LDPE – 62,098 tons.

The structure of raw materials processed compared to the Budget in 2017, is as follows:

YEAR 2017	Budget [tons]	Achieved [tons]
Raw materials	199,183	198,502
Propane propylene mixture	126,821	134,359
Ethylene	72,362	64,143

The structure of the physical production as compared to the budget, in 2017, is as follows:

YEAR 2017	Budget tons	Achieved [tons]
Finished goods	163,964	166,924
PP	86,840	84,777
LDPE	70,414	62,098
Polymerizable propylene	6,710	20,049

The comparison of the production with the budget shows that the PP production reached 98% compared to the budget, while the LDPE production reached 88% compared to the budget.

The situation of production of polymers, on quarters is given below:

		1st quarter	2nd quarter	3rd quarter	4th quarter	2017
PP	Budget (tons)	22,620	22,880	23,140	18,200	86,840
	Achieved (tons)	22,052	16,012	22,317	24,397	84,777
	Achieved/Budget (%)	97%	70%	96%	134%	98%
LDPE	Budget (tons)	18,312	18,530	18,748	14,824	70,414
	Achieved (tons)	10,969	15,658	15,496	19,976	62,098
	Achieved/Budget (%)	60%	84%	83%	135%	88%

In 2017, the average value of the cost on processed raw materials was for:
- propane – propylene mix – budgeted at USD 489 /ton and achieved USD 683 /tons;
- ethylene – budgeted at USD 1,106 /ton and achieved USD 1,140 /ton.

In 2017, the average sale price on finished goods was for:
- PP budgeted at USD 1,065 /ton and achieved USD 1,139 /ton;
- LDPE budgeted at USD 1,372 /ton and achieved USD 1,327 /ton.

The quantitative structure of the polymer deliveries is summarized in the following table:

PRODUCTS		DELIVERIES			
	TOTAL DELIVERIES	DOMESTIC*		EXPORT	
	[tons]	[tons]	[%]	[tons]	[%]
PP	82,766	30,175	36%	52,591	64%
LDPE	60,338	27,579	46%	32,759	54%

II) Investment activity

The investment activity in the year 2017 was focused, in accordance with the program, on the following:

- The increase of the processing capacity of the refinery and the generation of fuels, with the specification in line with the European standards as also an increase of the white products efficiency;
- The alignment with the requirements of the European Union, the environmental standards in force, and in particular with the aim of reducing emissions.
- The alignment with safety regulations
- Projects for static and dynamic equipment revamp and modernization in order to keep them in good condition for safe operation

The investments performed in **2017** added up to ***55,607,264 USD***.

The main projects **completed in the year 2017** in Rompetrol Refinery:

- ***Implementation of APC (Advanced Process Control) in CDU***

The APC on CDU project scope of work was to optimize operational CDU unit activities, licenses acquisition for three years and perform a Refinery Master Plan for future APC prioritization in refinery units. Main objectives of APC project was to maximize the feed and yields of the white products, to stabilize CDU daily operations and to obtain a better control of CDU constrains.

Another main objective was to reducing and optimizing heaters fuel gas consumption for CDU.

The project execution started at beginning of 2017 and was completed on December 22, 2017 with "performance test" and we obtaining good results according with our expectations.

- ***Rehabilitation Refinery roads 2017***

During the 2017 repair and rehabilitation campaign for internal roads from PEM performed locally repairs on individual plots as follows:

- Road 5 ~ 65 sqm
- Road 10 ~ 60 sqm
- Road 11 ~ 490 sqm
- Road 12 ~ 235 sqm
- Road 13 ~ 185 sqm
- Road 14 ~ 680 sqm
- Road 18 ~ 460 sqm
- Road 23 ~ 475 sqm
- Road 32 ~ 25 sqm

- ***T2-417E Tank Rehabilitation***

The implementation of project "T2-417E Tank Rehabilitation" continued (project executed in two phases) as part of the General Master Plan Program, the objective of which is to maintain to an optimal value the storage capacity for Petromidia refinery products and the alignment with the safety requirements. The project was finalized on June 12th, 2017.

- ***IPPA Loading Process Improvement - Replacement of TAS related equipments***

The main works packages consist of
Improvement of loading pumps capacity and the flow rate control:

1. For Pumps group P1-A/B/R, P001-A/R, P002-A/R - Frequency converter have been purchasing and installed; Electric motors replaced with others strongest; Power cables, control cables and control buttons replaced;
2. Pumps group P2-A/B/R has been eliminating;
3. Instead of pumps group P2 A/B/R have been purchasing and installed two new pumps with 400 cubic meter/h flow rate;

   Purchased and implemented control systems with frequency converter for the new two pumps with 400 cubic meter/h named New P2 A/R. Two new foundations have been building, power cables for electric motors, control cables, grounding system, has been installing.
4. Arrangements into power station in order to electrical cabinets installing;
5. Acquisition and installing 4 pieces pressure sensors at the pumping groups, including wiring from them to cabinets with variable;
6. Acquisition and installing of 3 pcs assemblies/cabinets with variable frequency, contactors, PLC and HMI (Human Machine Interface), for the existing pump groups

Improvement of flow meters systems consists of:

1. Acquisition of degassers designed for real flows rates operation;
2. Installation of them takes place immediately before the skids, with foundations and pipe connections suitable size;
3. Electrical heating and insulation for pipe systems;
4. Acquisition and installation of systems to collect leakage of degassers, before directing the vapor to Vapour Recovery Unit and warning systems of leakages occurence;

➢ ***Refinery and Petrochemicals 2017 Shutdown***

Under the planned 2017 Refinery Shutdown project have been performed only activities that could be carried with units out of operation.
The main works packages consist of:

1. Catalyst acquisition/regeneration and Catalysts Services
   - Regeneration of catalyst in Platforming Unit;
   - Procurement and total replacement of catalysts in 4 units: 122 DHT, 147 MTBE, 190 SRU (TGT), 125 DHT and 1 unit 120 Naphtha Hydrotreater partial replacement;
2. Operational works
   - Washing, cleaning, inspections of air coolers, heat exchangers, vessels and columns;
   - Washing and filters elements replacement;
   - Declogging water towers;
3. Maintenance – Usual repairs and inspection necessary for equipment static/dynamics and pipes that cannot be performed during units operation;
   - Repair of static, dynamic equipment instrumentation and pipeline;
   - Findings from 2015 General Turnaround – after inspection conducted in 2015 General Turnaround, results a number of repair works that remain under observation. Those works are necessary to be executed in the next shutdown because in 2 years of function and can provoke a failure of equipment;
   - Maintenance preventive programs – all dynamics equipment that can not be shutdown during normal operation must be inspected and preventive maintenance must be carryout, in order to not damage the equipment;
   - Inspection and calibration – measurement and control equipment must be inspected and calibrated, and all electrical connections must be verified.
4. Capital Maintenance – equipment's that will be replaced only in shutdown period;
5. Capex or Improvement project – implementation of CAPEX projects that can be done only with plants shutdown;
6. Unexpected/found works – works that will appear after the equipment opening.

Project completion December 2017

Under the planned 2017 Petrochemicals Shutdown project have been performed only activities that could be carried with units out of operation.
The main works packages consist of:

1. Operational works
   - Washing, cleaning, inspections of air coolers, heat exchangers, vessels and columns;
   - Washing and filters elements replacement;
   - Declogging water towers;

2. Maintenance – Usual repairs and inspection necessary for equipment static/dynamics and pipes that cannot be performed during units operation;
   - Repair of static, dynamic equipment instrumentation and pipeline;
   - Findings from 2015 General Turnaround – after inspection conducted in 2015 General Turnaround, results a number of repair works that remain under observation. Those works are necessary to be executed in the next shutdown because in 2 years of function and can provoke a failure of equipment;
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5. Unexpected/found works – works that will appear after the equipment opening.

Project completion December 2017

➢ ***Angel hair/dust reduction in LDPE bunkers (traping system)***

It was identified the solutions for reducing and eliminating of the dust and angel hair, by stopping at the source of the phenomenon of generation of these secondary products that can have effects on:

- finished product quality
- environment
- production capacity

Phase I

- Detail Design for the entire project (civil, mechanical, electrical, automation, technology),
- Obtained Building permit.

After Design activity on this project RIS Engineering updated the budget for Phase 2.

Phase 2:

- Purchase cyclones-2 pc;
- Purchase blowers-2pc.
- Purchase horizontal final dedusting with cyclone and blower-1 pc.;
- Purchase special pipes and elbows;
- General assembly materials acquisition for civil, mechanical, electrical and automation works;
- Civil works (foundations, metal structures, supports, platform, access stairs);
- Assembly of piping, cyclones;
- Existing and new pipelines connections, connections with new equipments;
- Automation and electrical works;
- Commissioning.

➢ ***Lighting improvement (replacing street lighting with LED lamps) 2017***

The scope of the project is to implement a street lighting with light sources reliable and low-energy consumption, complying with the rules in force on the street lighting in order to justify the

deductions for Green certificates awarded to Rompetrol Refinery. In 2015 and 2016 the value of these reductions was 4,000,000 USD aproximately.

- ***AF ISCIR C10/2010 for CT pipes and Hexan Unit***

The scope of project was to obtain the ISCIR authorizations for all five pipelines (with a total length of 1,310 meters) that distributed steam, installed in CT (Heating Station) and Hexan Units, considered, after the designer's analysis, to fall under the prescription of PT C10 – 2010. The project was finalized on 7 February 2017.

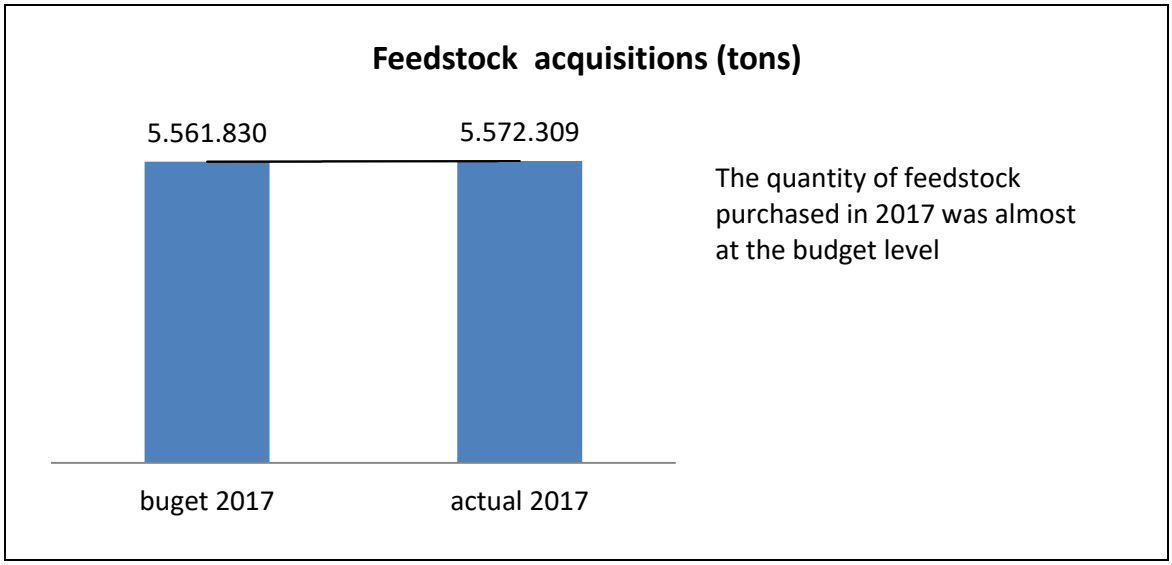
- ***AF ISCIR pipes from Dearomatization and Rectification units, according to PT C6/2010***

The scope of project was to obtain the ISCIR authorizations for all 175 pipelines from Desaromatisation Unit carrying flammable fluids and 63 remaining to be autorized pipes (carrying flammable fluids) from Rectification unit, considered, after the designer's analysis, to fall under the prescription of PT C6 – 2010. The project was finalized on 6 September 2017.

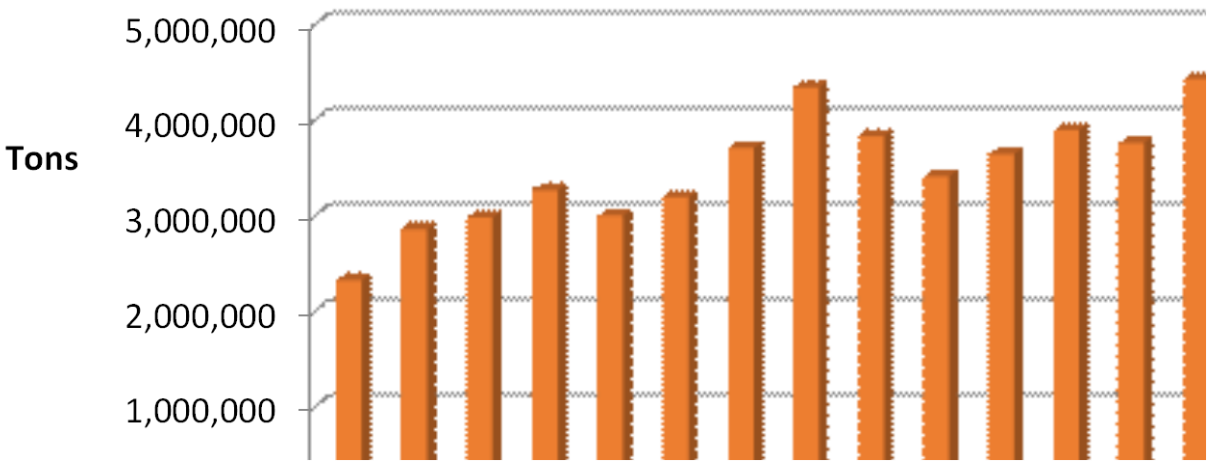
III) Commercial Activity

Rompetrol Rafinare – work point Năvodari (Petromidia Refinery)

1. Supply of Raw Materials



Evolution of crude oil acquisitions from 2001 forward



In the year 2017, crude oil acquisitions were slighty lower (4,669,513 tons) than the last year (4,752,447 tons). In 2017 a major overhaul took place in May. Larger other feedstock acquisitions have been made. Crude acquisitions have been exclusively carried out by the trading company of the Rompetrol Group - Kazmunaygas Trading AG.

All feedstock volumes purchased in 2017 from external sources (5,469,452 tons) were higher than in 2016 (5,362,555 tons).

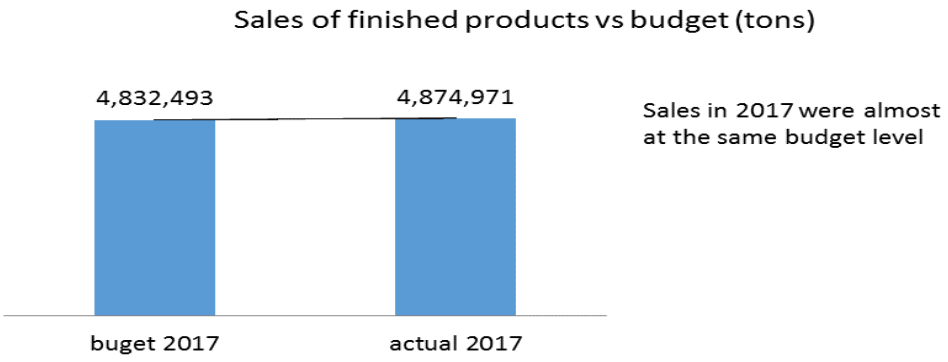
Average price of acquisition for crude was in 2017 higher (393 $/ton) than in 2016 (313 $/ton) due to increase of international quotations (in 2017 average for Brent was 54 $/bbl (411 $/ton) compared to 44 $/bbl (331 $/ton) in 2016.

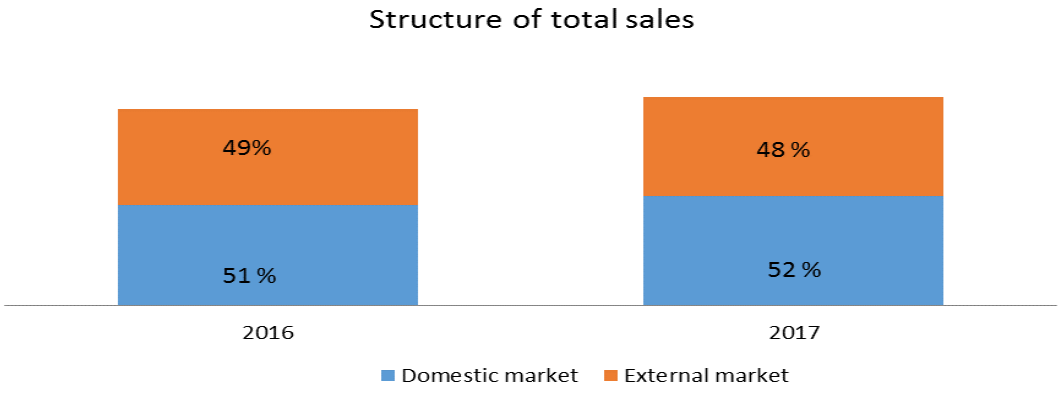
Domestic acquisitions in 2017 amounted to 102,857 tons compared to 52,341 tons in the previous year. Added to these, there were also volumes tranferred from Vega refinery in amount of 30,957 tons (27,692 tons in 2016).

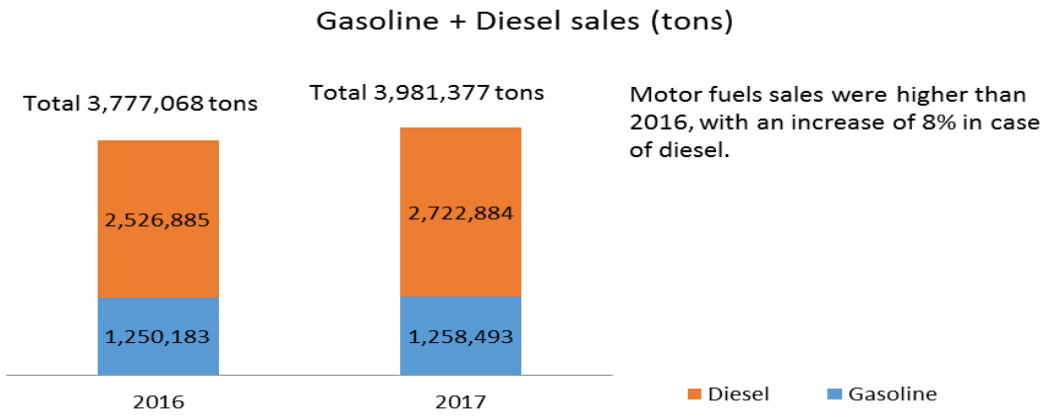
Domestic suppliers have been:

- Bio Fuel Energy – bioethanol
- Prio Biocombustibil/Expur - biodiesel
- OMV Petrom - gasoline RON 92/naphtha

2. Sales


Sales of finished products vs budget (tons)
4,832,493
4,874,971
buget 2017
actual 2017
Sales in 2017 were almost at the same budget level


Structure of total sales
49%
51 %
48 %
52 %
2016
2017
Domestic market
External market


Gasoline + Diesel sales (tons)
Total 3,777,068 tons
Total 3,981,377 tons
2,526,885
1,250,183
2,722,884
1,258,493
2016
2017
Motor fuels sales were higher than 2016, with an increase of 8% in case of diesel.
Diesel
Gasoline

Rompetrol Rafinare – work point Vega Refinery

The quantitative structure of the deliveries of petroleum products in 2017 is summarized in the following table:

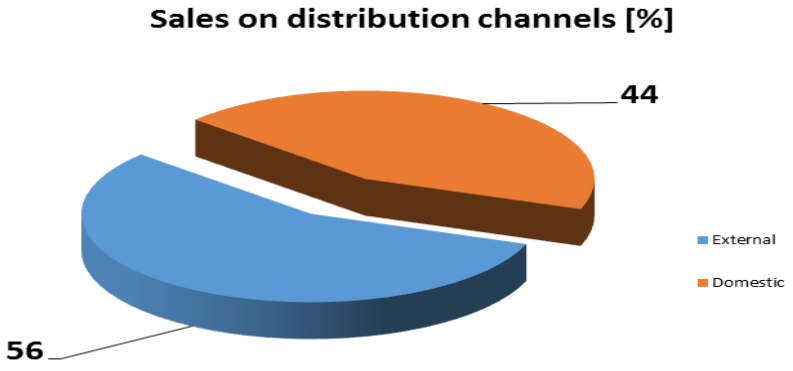
Product Group	Total sales 2017		Domestic		External	
	[tons]	% of total sales	[tons]	% of total sales	[tons]	% of total sales
Naphtha gasoline	110,229	29.70	28,552	17.55	81,676	39.18
Bitumen	96,470	25.99	96,470	59.29	-	
Heating oils	7,465	2.01	7,465	4.59		
Hexane	81,968	22.09	3,309	2.03	78,659	37.74
Fuel Oil	25,228	6.80	19,710	12.11	5,518	2.65
Petrol and White spirit	8,302	2.24	6,678	4.10	1,623	0.78
Ecological solvents	41,484	11.18	513	0.32	40,970	19.66
Total	**371,145**	**100.00**	**162,698**	**100.00**	**208,447**	**100.00**

The main markets for external channel were:

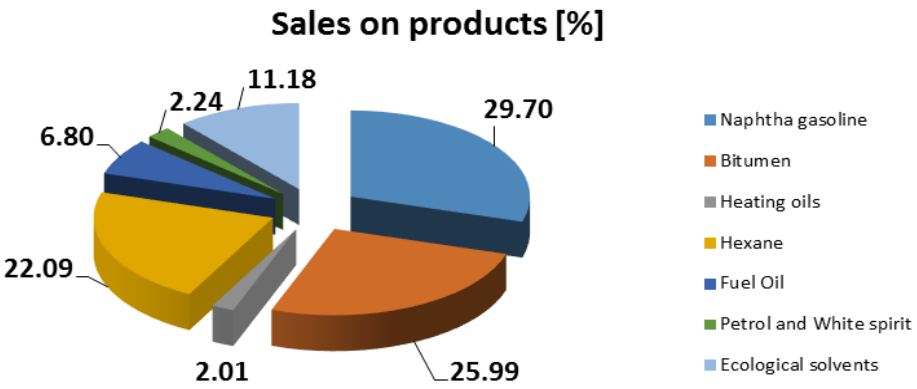
- Hungary, Moldova, Czech Republic, Poland for naphtha;
- India, Turkey, Serbia, Poland, Russia, Ucraina, Bulgaria for hexane;
- Germany, Bulgaria, Italy, Moldova, Ucraina for ecological solvents;
- Bulgaria, Moldova for white spirit;
- Bulgaria for heavy fuel oil.

Distribution market

In 2017, sales amounted to 371,145 tons, on external markets 208,447 tons and on domestic market 162,698 tons. Share on distribution channels is shown as below:



White products sales (naphtha, ecological solvents, n-hexane and white spirit) represented about 65 % of total sales in 2017.



Rompetrol Rafinare – work point Năvodari, the Petrochemical Plant

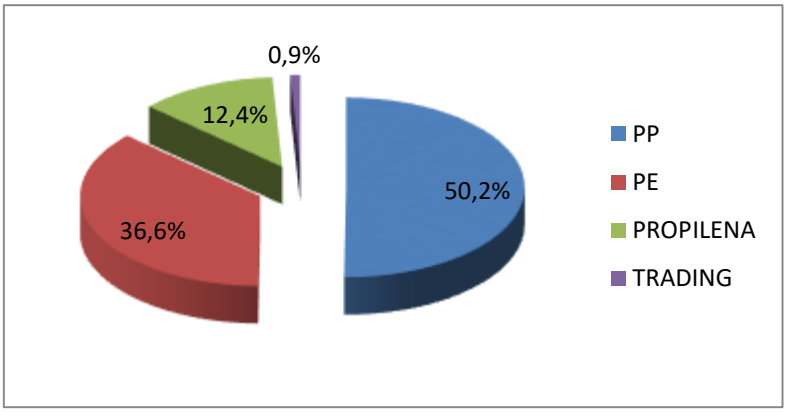
Rompetrol Rafinare SA, the Petrochemical Plant, is the sole polypropylene (PP) and polyethylene (LDPE, HDPE) producer of Romania.

Besides its own products, the Company is now actively selling a wide range of petrochemical products which are not currently produced by the Rompetrol Rafinare – the Petrochemical Plant, but which are in demand on the Romanian market, namely: High density polyethylene variants (HDPE pipe variants), linear low density polyethylene (LLDPE), PVC, PET and PP.

In 2017, within the petro-chemistry plant, only the PP and LDPE installations operated, and for the HDPE installation, the mechanical and organizational works were initiated to restart it in 2018.

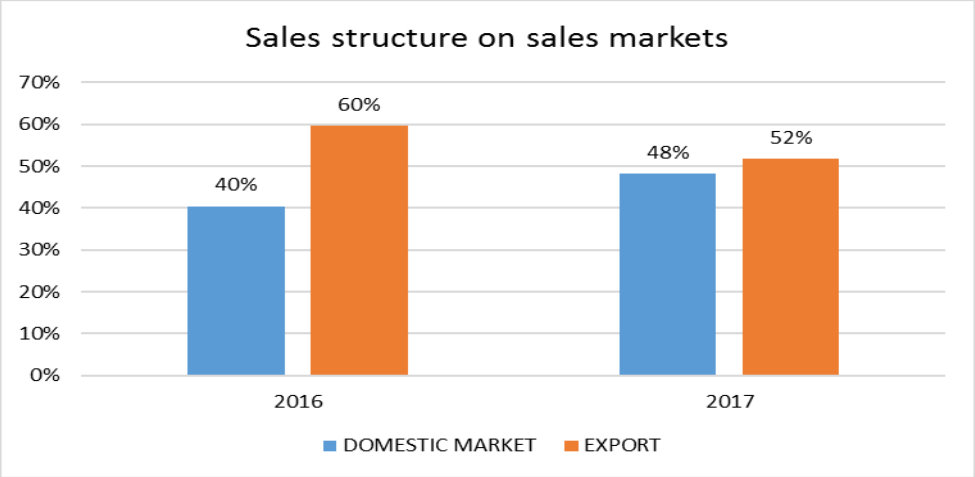
The sales of Rompetrol Rafinare – Petrochemical Plant amounted in 2017 to a quantity of 164,943 tons, up by 1% compared to 2016.

In 2017, 50% of total sales stand for polypropylene (PP), 37% stand for polyethylene (PE) and the remaining 13% represents sales of propylene and trading activity.



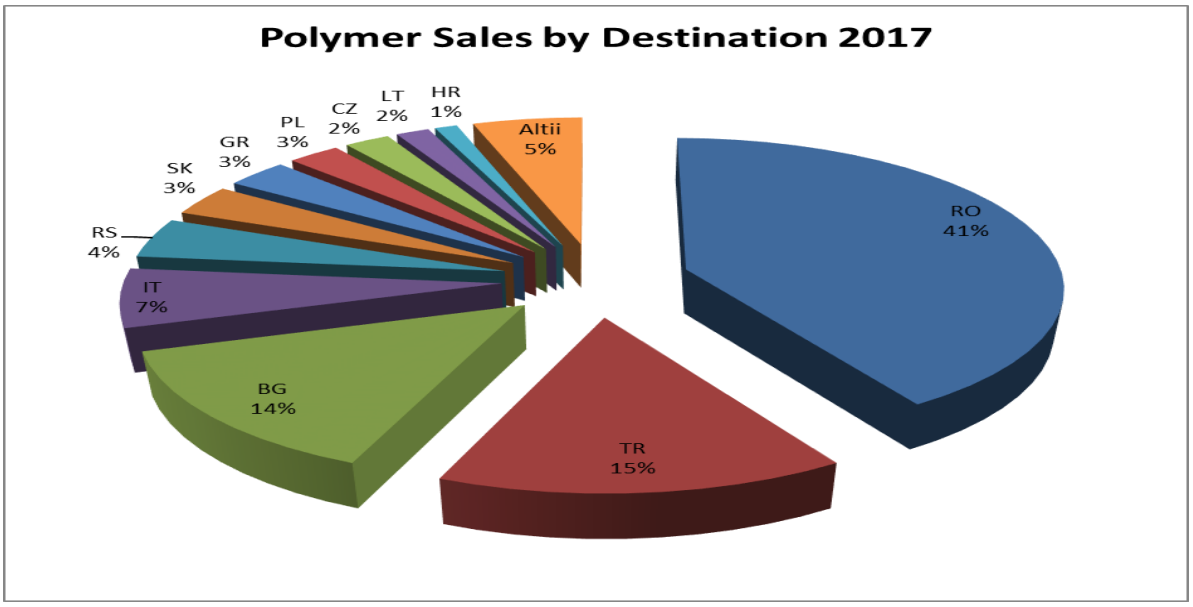
Significant sales growth, compared to 2016, were recorded in trading products (+178%) and sales of propylene (+145%).

Out of total sales, 48% is the domestic market and the rest of 52% represents exports. There is a change in the sales structure compare to 2016 in terms of distributing a larger percentage of products on the domestic market.



The most important distribution channels for polymers (PP, LDPE, HDPE, PET and PVC) are Romania, Turkey, Bulgaria, Italy.

The external sales of polymers were targeted to both the European Union and third countries. The intra-communitarian deliveries represented approx. 63% of the total export sales of finished goods, the difference representing the export sales on the non EU markets.



IV) Activity regarding quality, health, work safety and environment protection (QHSE)

Through QHSE specific activities it has been followed to achieve the objectives set for the year 2017. All these have materialized by **maintaining** the integrated management system quality-environment-health and occupational safety, as confirmed by **the supervision audit**, carried out by DNV-GL representatives (June 2017).

The major activities carried out in 2017 in order to achieve the QHSE objectives (detailing of the environmental and safety activities are to be found in the relevant chapters of this report):

- System documents have been maintained/developed/revised/reviewed (procedures / work instructions / regulations, etc.) in compliance with the requirements of the KMG International Group Policy no 1 and new ISO 9001 and 14001 standards;
- There were performed internal audits, safety audits, inspections in accordance with the planning, in order to identify both weak points and improvement opportunities;
- There have been drawn up specific statistics and reports, with various frequencies (weekly/monthly/quarterly/half-yearly/annual/upon request), in order to meet as well internal requirements as also and legislative requirements and the requirements of other interested parties;
- The certifications on vehicle fuels and bitumen were kept in compliance with the legal requirements / regulations of the European Union;
- ISCC Certification for fuels with biocomponent
- Has been completed the market research report related to Customer Satisfaction Survey
- The activity at the two work points - Petromidia refinery, with two plants (Refinery and Petrochemical), and Vega refinery have been monitored for purposes of environment protection, pursuant to the Integrated Environment and Water Management Authorizations, as well as in what regards the compliance requirements under the Greenhouse Gas Authorization;
- The safety awareness program for Petromidia and Vega employees was continued.
- There have been taken actions for personnel recognition and motivation, there were organized and our employees join in CSR projects:
    - Safety contest in Petromidia regarding “Zero Tolerance” and “Golden Rules”.
    - “Let’s manage safety together” - Safety Leadership Event organized on Petromidia Platform (workshops, audits, speeches and presentation) with the participation of more than 130 Top Management representants from all countries where Group operates.
    - “Kids@Work” expedition for marking “Children Day”,with support from HR,
    - “Connecting people to nature", over 70 Petromidia employees have set up a green space in Navodari in collaboration with local authorities.
    - SMURD first event organized together with Sustainability team in respect with first aid course.

STATEMENT
OF THE MAIN ECONOMIC-FINANCIAL INDICATORS AND OTHER INFORMATIVE DATA, ON DECEMBER 31ST, 2017, AS COMPARED WITH THE INCOME AND EXPENDITURE BUDGET APPROVED IN THE GENERAL MEETING OF THE SHAREHOLDERS OF THE COMPANY 2017

Crt. No.	INDICATOR'S NAME	LEI	
		OMFP nr. 2844/2016	
		Carried out 2017	BVC 2017
1	Crude oil processed and other raw materials (tons)	5,662,487	5,652,205
2	Net turnover	11,192,755,314	9,280,088,858
3	Cost of sold production	(10,628,344,179)	(8,920,199,670)
4	**Gross profit/ (Loss)**	**564,411,135**	**359,889,188**
5	Distribution and general administrative expenses	(277,870,892)	(194,630,188)
6	Other incomes/operational expenses, net	(63,179,014)	(3,656,706)
7	**Profit / (Loss) operaţional**	**223,361,229**	**161,602,294**
8	Financial expenses	(159,732,555)	(107,749,817)
9	Financial incomes	46,439,668	-
10	(Losses)/ Gains on exchange rate variations, net,	308,268,386	-
11	**Gross profit/ (Loss)**	**418,336,728**	**53,852,477**
12	Incomes on tax on postponed profit/ Minority interest	-	-
13	**Profitul/(Loss) on exercise**	**418,336,728**	**53,852,477**
14	Non-current Assets	5,480,958,590	-
15	Stocks	1,014,258,927	-
16	Receivables	1,577,627,271	-
17	Cash	22,863,280	-
18	Total debts (including provisions)	5,516,249,618	-
19	**Own capitals**	**2,579,458,450**	-
20	**Average number of employees**	**1,082**	**1,066**

From the data presented in the above table, comparing the results recorded at 31.12.2017 with those approved in the Income and Expense Budget (Bugetul de venituri şi cheltuieli - BVC), the following results:

1. In 2017, Rompetrol Rafinare processed a quantity of crude oil and other raw materials of 5,662,487 tons, approximately equal to that foreseen in the Income and Expense Budget, respectively, by 10,283 tons more than budgeted.

2. The turnover recorded at 31.12.2017 is by 21% higher than foreseen in the budget, mainly due to price raises on finished goods, in comparison to the provisions in the budget.

3. The cost of the production sold was by approximately 19% higher than the value foreseen in the budget, an aspect mainly due to the raise of price on crude than the provisions in the budget.

4. The result of the exploitation activity is positive (profit) in amount of **223,361,229** lei;
The financial expenses record values higher than budgeted, by 48%;

5. The net differences of exchange rate recorded in 2017 are favourable, their value reaching 308,268,386 lei, given the continuous appreciation of the national currency to the USD;

6. **At the end of 2017, Rompetrol Rafinare records a net positive result (profit) of 418,336,728 lei.**

   According to the legal provisions in force, 5% of the profit shall be constituted as legal reserve (20,916,836 lei) and the difference of 397,419,892 lei shall be used to cover the accounting losses of the previous years;

7. The total amount paid in 2017 to the state budget and to the local budgets was of 5,090,339,568 lei (equivalent of 1,264,145 thousand USD) ainly representing duties, VAT, taxes and salary taxes, local levies and others. Of the levies and taxes paid by the Company to the state budget, important amounts, quotas established by the legislation that regulates local budgets, are directed to the local authorities on whose territories the company performs

b) Date on which the Company has been established.

Midia Năvodari Petro-chemical Complex (the first name of the Company ROMPETROL RAFINARE S.A.) has been designed during 1975 - 1977, on the basis of the Romanian refining technologies and on the basis of foreign licenses.

1991 has meant the transformation of the Combinatul Petrochimic Midia into a joint stock company, the assets of the former Company have hereby been totally retrieved. The new company, bearing the name of PETROMIDIA S.A., has been established by Government Resolution No. 1176/1990, pursuant to Law nr. 15/1990 on the reorganization of the economic units of the state as autonomous organizations and companies.

In the year 2001 the name of the Company changed from **"PETROMIDIA S.A."** to **"ROMPETROL RAFINARE-COMPLEXUL PETROMIDIA S.A."**, and in 2003 the Company changed its name to **„ROMPETROL RAFINARE S.A.".**
The company is registered with the Trade Register Office Constanta under No. J13/534/1991, and has the Tax identification Number 1860712.

With regard to the legal provisions in force, in the General Extraordinary Meeting of the Shareholders of September 17th, 2007 it was decided upon gaining the full ownership of the facilities and equipment within the Vega Refinery, located in Ploiesti, 146 Văleni Str., Prahova county.

While gaining the ownership right and about while taking back possession of the land and of all the assets of the perimeter of the Vega Refinery, the Company has set up an own work point in Ploieşti and obtained as of December 1st, 2007, the quality of authorized production warehouse keeper for energetic products and for the Vega Ploieşti Refinery.

In this way, with effect on the same date of December 1st, 2007, the Company also operated the Vega Ploieşti Refinery, as a second tax warehouse of production, together with the tax warehouse for production of the Petromidia Refinery.

In 2013, the Shareholders Extraordinary General Assembly approved the Company's acquisition of the ownership right on mainly tangible and intangible assets, assets (buildings and constructions, technological equipment, devices and measuring installations, office equipment, IT equipment, means of transportation, other tangible assets), current investments and stocks, affected or associated to the main petrochemical activities, belonging to Rompetrol Petrochemicals S.R.L. (registration number with Trade Register J13/2681/2002, sole registration code 15077797), in compliance with the Assessment Report drawn up to this purpose by Pricewaterhouse Coopers Management Consultants S.R.L.
Through the integration of the activity of the 2 companies (Rompetrol Rafinare and Rompetrol Petrochemicals) it has been carried out in the first place the simplification of the deliveries of raw materials/finished goods between the technological facilities which presently belong to the same entity.

The integration of the activities carried out within the two Companies represents a continuation of the strategy of the KMG International Group to concentrate in a single entity the production activity and the separation of the non-core activities.

c) Significant mergers or reorganizations of the Company, its subsidiaries or controlled Companies, during the course of the financial year.

Throughout 2017, the Company did not take part in any merger or significant reorganization.

d) Assets acquisitions and sales.

Throughout 2017, the Company did not register participations to other companies, purchase assets such as fixed assets and not sell assets.

e) The main results of the assessment of activity of the company

Rompetrol Rafinare S.A. recorded in 2017 net turnover of RON **11,192,755,314** and a net profit of Lei **418,336,728**.

Rompetrol Rafinare S.A. continued the improvement of the efficiency of the refining activity as well as the reduction of technological losses and consumption.

1.1.1. Elements of general assessment

Indicators (LEI)	2017
Profit	418,336,728
Operating result - profit	223,361,229
Net turnover, of which:	11,192,755,314
Export	5,404,205,406
Cost of sold production	(10,628,344,179)
Market share (%)[2]	26%
Liquidity (effective amounts in accounts and cash equivalents)	22,863,280

a) Profit

At the end of 2017, Rompetrol Rafinare registered a positive result (profit) of **Lei 418,336,728**.

According to the legal provisions in force, 5% of the profit shall be incorporated as legal reserve (RON 20,916,836) following that the difference of 397,419,892 be used to cover the account losses of the previous years.

b) Turnover

In 2017, the company net turnover was of **11,192,755,314** lei, higher by 21% to that foreseen in the budget and by 28% higher to that recorded at the end of 2016, mainly due to:

- Increse of sales prices on finished goods by comparison to that foreseen in the budget; from the quantity point of view, the sales being approximately at the budget level.

[2]*Fuels sales (gasoline and diesel) on the domestic market segment are exclusively delivered by the Group authorized trader – ROMPETROL DOWNSTREAM SRL Bucharest which owns a 26% market share of Romanian fuel distribution.*

c) Export

In 2017, the share of international sales in total sales represented approximately 48%, coming to a value above that at the end of 2016.
The total amount achieved in 2017 from international sales of finished goods was of USD 1,339,971,744 (afferent to the two refineries Petromidia and Vega and the Petrochemistry Plant).

d) Cost of sold production

The cost of sold production was by approximately 19% higher than the amount foreseen in the budget, mainly due to the increase of price on crude by comparison to the provisions in the budget.

e) Market share owned

From the data which we hold, the market share we estimated in the year 2017 reached about 26% (throught distribution to retail), and is not influenced by major changes in the structure of the other distributors on the internal market.

f) Liquidity

As regards liquidity, the company maintained its capacity to cover the current debts from the current assets, the liquid ratio increased from 0.44 in 2016 to 0.54 in 2017.

1.1.2. The Assessment of the Technical Level of the Company

The main products produced by Rompetrol Rafinare S.A in the year 2016:

The Production Nomenclature of *Rompetrol Rafinare S.A., work point Năvodari - Petromidia Refinery*, includes a wide range of finished products, marketed both on the internal as well as on the external market, grouped into the following categories:

1. Liquid fuels

a) Gasoline

- RON 92 Gasoline
- Euro Super 98 Gasoline
- RON 98 Gasoline
- Eurostandard Gasoline
- Europlus 50 ppm Gasoline

- Europlus 10 ppm Gasoline
- Europlus 10 ppm BIO Gasoline
- Efix S 98 Gasoline
- Efix S 95 Gasoline
- Raffinate for chemical use

b) Diesel fuels

- Euro 5 Diesel
- Euro 5 Diesel (Euro 5 Super Diesel)
- Euro 5 Diesel (Euro 5 Super Diesel) Market
- Diesel 55
- EFIX Diesel 51
- Euro 5 Diesel (Winter Diesel)
- Euro 5 Diesel (Winter Diesel) Marcata
- EFIX 51 Diesel Winter
- Efix S Diesel 55

- Slurry

c) Petroleum

- Aviation turbine fuel jet A1

e) Fuel oil

2. Gaseous fuels

a) Liquefied Petroleum Gas

- GPL
- Vehicle fuel GPL
- Propane fuel
- Commercial Propane-Butane

b) Gases

- C5-C6 Fraction
- Combustible refinery gasses
- Propylene/propane-propylene mixture

3. Solid fuels

- Petroleum coke
- Petroleum Sulphur

The Production Nomenclature of *Rompetrol Rafinare S.A. work point Ploiesti - Vega Refinery* includes a wide range of finished products grouped into the following categories:

1. Liquid fuels

a) Solvents
- Ecological solvents
- Normal hexane
- Naphtha Gasoline
- Light naphtha type II
- Light naphtha type A

b) White spirit and petroleum
- White Spirit
- Non-industrial fuel type P

c) Diesel fuels
- Calor Extra I

d) Fuels
- Light oil fuel type III
- Calor Economic 3

e) Fuel oil

f) Bitumen
- Roads Bitumen
- Special Bitumen
- Polymer-modified Bitumen

g) Additives

The production classification of *Rompetrol Rafinare S.A. - Năvodari Unit – Petrochemical Unit*, contains a large array of petro-chemical finished goods, grouped into the following categories:

1. Polypropylene (PP)

a) Injection sorts – J500, J600, J700, J800, J900, J1000, J1100, J1200, J1300, J1400, RHC40
b) Sorts of Raffia – F301, F401, F501
c) Sort thermos-forming – RTF-3
d) Sorts of film – F500, F600, RCF9 , F400BO – new sort in development
e) Sorts of fibers – S711, S1001, RSB25

2. Polyethylene of low density (LDPE)

a) Sorts of thin film – B20/2, B21/2, B20/3, B21/3

b) Sort of film for thick bags – B20/03,
c) Sort of film for liquid packaging – B21/05
d) Sorts of thin film for thermo-contracting foil – B22/025, B22/07
e) Sorts of agro-film for greenhouses - RGH-035 UV

The Description of the main Services of Rompetrol Rafinare:

During 2017, the company provided the following services:

➢ Energy distribution and utilities services. These services have been performed by Thermo-Hydro Unit together with the Electric Unit for the companies on Petromidia platform as well as for other companies outside the platform, consisting of:

- Instrumental air, technical air, fire extinguishing water, drinkable water, hot water, condensed return water, waste water treatment, demineralized water, raw water, filtered water, combustible refinery gases, electric energy, thermal energy, drinkable water, propane for heating.

Services provided to third parties: waste water Treatment in Water Purification Plant.
All these utilities are transported and distributed by the pipeline network exploited by the Utilities Plant. Transport and distribution costs are included in the price of the utilities, except for:

- electric energy – electric energy distribution tariffs on the two voltage levels of low voltage and high voltage are regulated by the National Energy Regulatory Agency;

- drinkable water – the tariff for the distribution of drinkable water is regulated by the National Regulatory Authority for Community Services of Public Utilities

Concurrently, the company purchased services consisting of: take over, transport, for the purpose of the final elimination in authorized installations of hazardous sludge waste having waste codes: 05 01 09* and 19 08 13*.

a) The main distribution markets for each product or service and methods of distribution:

In 2017, the share of the domestic market of the total sale was about 52%. The domestic market absorbed approx 48% of the total quantity of gasoline and diesel fuels traded in 2017. The sales of vehicle fuels for the domestic market through the petrol stations network covered all geographical areas of Romania. The highest share (approx. 83%) in the sales of vehicle fuels traded on the Romanian market was on the sale of Diesel fuels.

The external sales were targeted to both the European Union and non UE countries. In 2017, the intra-communitarian deliveries increased their share (approx. 39% of the total finished goods sold), more than the previous year (36%).

International sales had the following main destinations:

Gasoline - Greece, Georgia, Lebanon, Bulgaria, Moldova
Diesel fuels - Bulgaria, Moldova, Turkey, Georgia, Greece
Jet fuel - Moldova, Georgia, Bulgaria
Petcoke - Turkey, Ukraine, Serbia, Bulgaria
Sulphur - Egypt, Morocco

The sold petroleum products have been shipped mostly by means of road trucks and on rail, but also by barges, in case of domestic sales. On external channel, most of the sales sales were largely dispatched by the sea via the Midia and Constanta ports, but also by road and rail transportation means.

The polymeres sales on the international market had as destinations both the community space, as well as the non-community. The deliveries within the community represented approximately 63 % of the total finished goods sold on the international market, the difference representing the sales on the non-EU markets.

By country, the polymere sales (PP, LDPE, HDPE, PET şi PVC) had the following main destinations: Romania, Turkey, Bulgaria and Italy.

The distribution of the petrochemical products sold by Rompetrol Rafinare was performed by road and railway in the case of the sales on the domestic market, and for the international sales, the distributin of these products was performed both by road as well as by sea, via Agigea and Constanţa ports.

b) The share of each category of products or services in the revenue and in the total turnover of the company, for the last 3 years.

Indicators	Value-million LEI			% in turnover		
	2015	2016	2017	2015	2016	2017
Net turnover, of which:	**9,811**	**8,774**	**11,193**	**100.0%**	**100.0%**	**100.0%**
Gasoline and diesel fuels	7,551	6,757	**8,639**	77.0%	77.0%	**77.2%**
Other petroleum products	1,481	1,252	**1,681**	15.1%	14.3%	**15.0%**
Petroleum products	733	729	**765**	7.5%	8.3%	**6.8%**
Goods	25	14	**32**	0.3%	0.2%	**0.3%**
Utilities	8	8	**54**	0.1%	0.1%	**0.5%**
Services	13	15	**22**	0.1%	0.2%	**0.2%**

The most part of the Rompetrol Rafinare S.A. income is represented by the sale of petroleum products, mainly automotive fuel.

c) The new products taken into account for which a substantial volume of assets shall be used in the future financial year as well as the development stage of these products.

In the year 2018, Rompetrol Rafinare shall continue to deliver on the domestic market only Euro 5 fuels (max Sulphur content 10 mg/kg) and a content of biofuel of minimum 4.5 % in volume for gasoline and minimum 6,5% in volume for Diesel fuel (in compliance with the Government Decision No. 935/2011 and the Government Decision No. 928/2012, with subsequent modifications and completions).

The Euro 5 fuels are:

- Efix S 98 Gasoline
- RON 98 Gasoline
- Euro Super 98 Gasoline
- Efix 95 Gasoline
- Europlus Gasoline
- Efix S Diesel 55
- Diesel 55
- Efix Diesel 51
- Euro 5 Diesel

For the year 2018, Rompetrol Rafinare does not envisage any increase of portfolio on processed products but shall prepare the bottling and delivering to domestic consumers of the product called "LPG – domestic usage for bottles".

Following the development of 3 new grades in 2016, RGH035 - greenhouse LDPE film, RSB25 - PP grade for fibers "Spun Bond" and RHC40 - high transparency PP injection grade, in 2017 the first two grades entered in current production schedule. For RHC40, development continued in 2017 in order to improve the quality.
In 2017, PP grade F400BO was reformulated and adapted for high speed production lines of BOPP film, development will complete in 2018. It's good to know that less than 200 km away from Petromidia, the processing capacity for F400BO is bigger than total PP unit capacity.
In 2017, the new grades represented more than 14% of total capacity and a big part of domestic market delivery for these grades were in bulk, thus, reducing the quantity of packaging materials placed on the market.
Second half of 2017 represented the starting point for HDPE turnaround and unit restart is expected March - April 2018.

In 2017, Vega Refinery, production focused on solvents (SE 30/60, n-Hexane, White spirit), naphtha, heating fuels and normal road bitumen and modified bitumen.
There are no planned new development products in the production program for the year 2018.

1.1.3. The Assessment of the Tehnnical-Material Supply Activity

The feedstocks for the refinery are assured on the base of ferm contracts concluded both from import and domestic sources. Crude oil – the main raw material of Rompetrol Rafinare is ensured by firm import contracts concluded annually, which confers stability and safety for the optimum operation of the oil refinery. The main import market is that of Kazakhstan. The purchased crude is traded through Midia Marine Terminal S.R.L. The purchase of the other raw materials is ensured from both Romania, and external sources.

The feedstock purchase prices follow the trend of quotations on international markets, having as a basis of calculation the reference international quotations on the oil market. The quotations level is induced by the variation and international situation influenced by the economic and geo-political factors and this fact is also reflected in the raw material purchase price level.

Ethylene – the raw material for polyethylene (LDPE, HDPE) is purchased on the external market, at prices following the quotation trends.

Information with regard to the safety of sources of purchase and prices of raw materials and to the dimensions of raw material stocks and materials.

Take-over by KazMunayGaz of Kazakhstan, of the entire stock owned by the mother company of Rompetrol[3] Group (Rompetrol Holding N.V.) in the Dutch company - The Rompetrol Group N.V. (currently called KMG International N.V.), ensures the stability of the supply sources with the crude necessary for Petromedia Refinery to operate at optimum parameters, as well as financial support from the main stock holder to finance investments.

The quantity of crude necessary to processing in 2017 was contracted with KazMunayGaz Trading A.G. – who is the dealer of the group KMG International, located in Switzerland and who is specialized in crude and oil product trading operations. This ensures the imports of crude and other raw materials and at the same time takes over the oil products to have them sold on the international markets.
The raw materials for the refinery are purchased based on certain ferm import contracts, as well as on the domestic market. The crude – the main raw materiual of Rompetrol Rafinare S.A. is ensured only by import, based on annually concluded ferm contracts that provide the refinery stability and security of operation in optimum conditions. The main source of crude is the market of Kazakhstan. The crude volumes purchased are run through Midia Marine Terminal. The other raw materials coming from other international as well as domestic sources.

The purchase prices on raw materials follow the quotation trend on the international markets, having as calculus basis the set point quotations on the oil market. The quotation level is induced by the fluctuation and international market position influenced by economic and geo-political factors,

[3] *By its current name Group KMG International*

and this is also seen in the level of purchase price on raw material. For 2018 no modifications to the raw material and materials supply chain are in sight.

The crude purchased by Rompetrol Rafinare S.A. is downloaded at the sea terminal belonging to KMG International, located in the vicinity of Petromidia Refinery.
The chemicals purchased by Rompetrol Rafinare S.A. (for the two oil refineries) in the course of the year 2017 may be grouped as follows:

- catalysts
- additives
- chemical services for water treatment
- other chemicals (inhibitors, process chemicals, etc.)
- reactives
- oils

1.1.4. The Assessment of the Sales Activity

a) The trend in sales on the internal and/or external market and their estimate on medium and long term.

The total sales in 2017 increased by comparison to 2016, with a significant increase on the domestic market, especially on essences and vehicle Diesel fuel. On the international market, the volumes transactioned were higher, with an important increase on the solid fuels sales (coke). The regional markets consolidated (Greece, Georgia, Turkey, Bulgaria, Moldova) but important quantities were sold on other markets as well (The Middle East, North Africa). 2018 also aims at the consolidation of the existent markets as well as entering new ones. For the domestic market, the marketing strategies keep aiming at increasing the market share via an extended network of petrol shop at national level.

b) The description of the competition in the field of activity of the company, the market share of the products and the services of the company and the main competitors

The main **competitors** (who are also producers) on the internal market are:

- OMV Petrom S.A.
- Lukoil Romania S.A.

The main **competitors** on the foreign market are: OMV, Shell, Mol, Agip, Lukoil.

The main **competitors** (which are also producers, but located outside of Romania) for petrochemical products on the domestic and external markets are:

- TVK
- Slovnaft

- HIP Pancevo
- Lukoil Burgas
- Borealis
- Sabic
- DOW
- Petkim

c) The description of any significant dependency of the company towards a single client or group of clients the loss of which would have a negative impact on the income of the company.

From the point of view of the significant dependence towards a single client or group of clients:

KazMunayGaz Trading A.G. - performs more than 10% of the company's external sales.

Customers with more than 10% of the company's sales on the internal market: Rompetrol Downstream S.R.L.

1.1.5. The Assessment of the Aspects regarding the employees/staff of the Company.

a) the number and level of training of the employees of the company as well as the degree of unionising the employees.

On December 31st, 2017, Rompetrol Rafinare S.A., Năvodari Work Point (Petromidia Refinery) had a number of 968 employees, of which: 215 - higher education staff.

On December 31st, 2017, in the Vega Refinery Work Point, Ploieşti, the company had a number of 188 employees, of which: 33 - higher education staff.

TOTAL: On December 31st, 2017, Rompetrol Rafinare S.A. had a total of 1157 employees, of which: 248 - higher education staff.

The trade union membership rate was 89.51 % (964 employees are Trade Union members).

The following trade unions activate in the company: Petrochimistul Free Trade Union (596 members), Vega Free Trade Union (106 members), Midia Năvodari Industrial Platform Workers Trade Union (262 members).

Break down of employees on age groups:

- **Rompetrol Rafinare Petromidia Unit**

Age Range	Number of employees	Percent of the total number of employees
< 30	105	10.84%
30 - 39	127	13.11%
40 - 49	303	31.27%
50 - 59	410	42.31%
>60	24	2.48%

- **Rompetrol Rafinare Vega Unit**

Age Range	Number of employees	Percent of the total number of employees
< 30	10	5.32%
30 - 39	10	5.32%
40 - 49	77	40.96%
50 - 59	80	42.55%
>60	11	5.85%

Also, in the reported period there have been carried out a series of training programs for employees in the areas following areas: functional competences; general knowledge; legislation; management skills; communication; presentation skills; QHSE certifications; safety; professional knowledge - support functions, etc.

A total number of 564 employees attended the trainings, which totaled 13,762 hours, which means an average of approx. 24.4 hours training/employee.

The total cost of training for the year 2017 was 124,912 USD.

b) The description of the relations between the manager and the employees as well as any conflicting elements which characterise these relations.

The relationships between the company management and employees are normals, having no negative impact on the economic performances of the company. There is a regular dialogue between the company management and the unions.

At the end of 2017 the negotiation of the new Collective Labour Contract (Contract Colectiv de Munca - CCM) was concluded for a 2-year term between Rompetrol Rafinare and “Petrochimistul” free Union (Sindicatul Liber Petrochimistul - SLP) and concluded, based on Law no 62/2011, a

protocol on implementing the provisios of EGO 79/2017 on amending and modifying Law no 227/2015 on approving the Fiscal Code, targeting the transfer of the social contributions from the empyoer to the employee. In compliance with art. 149 and art. 150 of Law no 62/2011, it was agreed an increase of the basic salaries by 150 lei net for all the employees of the Company, starting with 01.01.2018.

1.1.6. The Assessment of the Aspects relating to the impact of the main activity of the issuer on the environment

The synthetic description of the impact of the basic activities of the issuer on the environment as well as any existing or planned disputes with regard to the violation of the legislation concerning the protection of the environment.

The Company owns and operates the Petromidia Refinery, located in Năvodari, Constanţa County and the Vega Refinery located in Ploieşti, Prahova County.
Through the nature of the activities carried out (processing of the crude oil), the company has an impact on the environment, and for this reason the management is continuously preoccupied with the prevention and control of the impact of the activities carried out, on the environment factors, allocating considerable financial resources for investments to this purpose.

The environment strategy of Rompetrol Rafinare is based on the compliance with the legislation, through permanent monitoring and regular reporting of the compliance degree and the continuation of the investment programs, for the alignment with the best techniques available in the industry (BAT BREF) and shall be based on the following principles:

- Compliance with legislation and other applicable requirements, the permanent monitoring of the degree of legal compliance;
- Using the environmental management system in order to integrate performance criteria as well as criteria regarding air, water, soil and natural resources protection;
- The continuation of the investment program in order to comply with the legislation in the field of environment protection;
- The assessment of the environment performances of the company, the communication with the interested organizations as well as with the local communities, with regard to the continuing improvement of the environmental performances.
- Promoting information and awareness among the employees of the company, with regard to the measures for prevention and reduction of the emissions in the atmosphere, water and soil, including the measures concerning the waste management for the activities carried out and which may have an impact on the environment.
- Participation in voluntary projects and social responsibility projects in the neighboring communities.

<u>Integrated Environmental Permit</u>

Throughout 2017 Rompetrol Rafinare SA – Năvodari Point of Work operated based on the Integrated Environmental Permit no 1/10.05.2013 valid up to 10.05.2023 (Refinery Plant) and respectively AIM no 9/3.10.2011 valid up to 02.10.2021 (Petrochemicals Plant). Also, in 2017, the

procedure for the revision of the environmental permit was initiated in order to include the environmental authorization of the gas bottling station.

Vega Refinery functioned based on the Environment Integrated Permit no 9/08.07.2015 issued by APM Prahova, valid until 08.07.2025.

Environmental Agreement
During 2017 all investment projects were completed within the assessment procedure of impact on the environment together with the receipt of the regulation documents (usually Decisions on the project category level) from the competent authority on environmental protection.
Project "Rehabilitation and layout of the field area on the premises of ROMPETROL RAFINARE S.A. - Rafinăria Vega Ploieşti on which we have located acid pitch pits and petroleum refuse" on the Environment Permit no 1/18.02.2015 is in process.

The Water Permit
In 2017 operated based Water Permit was issued by ANAR in 2016 with a validity of 2 years.

Rompetrol Rafinare SA - Vega Refinery received the Water Permit no 1/04.01.2016 issued by SGA Prahova with a 2 year validity.

The Greenhouse Gas (CO_2) Permit
The Greenhouse Gas Permits are valid until the end of 2020 (Stage III – 2013-2020), both for Rompetrol Rafinare – Petromidia Unit, and Rompetrol Rafinare – Vega Unit.

Throughout 2017, within the National Agency for the Environment Protection, there were drawn-up and submitted the Plans on monitoring and reporting the CO_2 emissions for 2018.

In March 2017, the 2016 emission associated certificates were returned to the European Register of CO_2 Gases Emissions (EUTL).

Compliance with the REACH Regulation – as required by the European Chemicals Agency (ECHA)

- ECHA requirements were complied on updating files for the manufactured and marketed petroleum products.
- Safety Data Sheets on all petroleum products introduced to the market were updated, in the context of applying the requirements of the EU Regulations 830/2015.

In 2017, Rompetrol Rafinare – Năvodari Facility finished the works on emptying sludge dump no 2., and starting from December 2017 started to empty sludge dump no 1.

1.1.7. The assessment of the research and development activity

The statement of expenditure under the financial year as well as of those which are to be expected for the next financial year for research and development.

Expenditure carried out in the year 2017	
Expenditure for studies and technical assistance	1,260,625 USD
Expenditure planned for the year 2018	
Expenditure for studies and technical assistance	1,719,903 USD

1.1.8. Assessment of the company's risk management activity

The description of the company's exposure to the price risk, credit risk, liquidity and cash flow risk.

The company is exposed to the risk induced by the high volatility of the prices of crude oil and petroleum products, with a direct impact on the gross margin on sales.

From the point of view of liquidity, on the background of a volatile market of petroleum and refined products, the company has made efforts to maintain the coverage of current debts from current assets, the current liquidity indicator being in 2017 at a value of 0.54.

Description of the policies and objectives of the company regarding the risk management

The activities of the company expose it to a series of risks, including effects determined by the modification of the price on crude and oil products, modification of the exchange rates between currencies and interest rates. The main objective of risk management at the level of the entire company, is to minimize any potential negative influences on the financial performances.

Interest rate risk
Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Company to both fair value and cash flow risk.

Foreign exchange risk
The Company's functional currency is LEU and crude oil imports and a significant part of petroleum products are all denominated principally in US Dollars, therefore, limited foreign

currency exposure arises in this context. Certain assets and liabilities are denominated in foreign currencies, which are translated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Company's Treasury is responsible for handling the Company foreign currency transactions.

Liquidity and cash flow risks

The liquidity risk consists in not having financial resources available in order to fulfill company obligations when they are due. Based on the forecasted cash flow, the management of the company checks daily the liquidity level and ensures the fulfillment of obligations to suppliers, to the state budget, to the local tax authorities etc. according to their maturity. The current and immediate liquidity ratios are monitored permanently.

One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2017 the company enjoyed continuous financing resources at the needed levels and ensured that no cases of temporary lack of financial resources or of lack of liquidity of the company occurred, as a result of selling products guaranteed with payment instruments and negotiating receipt terms from clients and payment terms to suppliers that are advantageous, maintaining at the same time a good relation with the business partners. Rompetrol Rafinare is part of the cash pooling facility of the KMGI Group and therefore can cover unexpected cash outflows by drawing from the facility.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

- *Trade receivables*

The Company is exposed to credit risk. Overdue customer receivables are regularly monitored. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

- *Financial instruments and bank deposits*

Credit risk from balances with banks and financial institutions is managed by the Company's treasury in accordance with the existing policy.

Commodity price risk

The Company is exposed to the price modifications risk of crude oil, oil product and refinery margin prices. Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Company's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, started on January 2011 to hedge commodities held by Rompetrol Rafinare.

According to the hedge policy, on the raw materials and petroleum products side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil

price increase, the hedge strategy for 2017 was split between futures and options while a certain quantity above base operating stock left unhedged.
Trading activities are separated into physical effective transactions (purchase of raw materials and sales of petroleum to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical effective transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Company sells or buys the equivalent number of future contracts based on the current position at that particular moment. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. The company also had hedge operations for refinery margins.

Operational risk
The operational risk derives from the possibility that accidents, errors, malfunctions may occur, as well as from the influences of the environment upon the operating and financial results. Rompetrol Rafinare S.A. has continued a broad revamp process on the refinery technology, for the purpose of increasing the production, reducing the technological losses, as well as eliminating the accidental shut-downs in the industrial process. Also, the Company is preoccupied with maintaining and improving the quality-environment-safety integrated system on a constant basis, aiming to improve the organizational image, by complying with the requirements on quality, environmental protection and work safety, by improving the relationship with the authorities and with the socio-economic society, by limiting the civil and criminal liability and by meeting the legal requirements for quality – environment – security.

For the projects and activities performed, Rompetrol Rafinare proactively develops and implements management strategies on the risks which may potentially affect the company and the interested parties.

Rompetrol Rafinare approaches risk management in an orderly manner, iteratively accessibly and with consequence, following the steps below:

1. It ensures the identification and assessment of risks in due time, in compliance with the risk management methodological instruments, by keeping a *Risk Register* to contain detailed information and analyses of all risks of the company, as well as a description of those factors whose change might influence or determine the occurrence of risks;
2. It ensures the quantity and quality assessment of risks with a view to evaluate their impact on the achievement of set targets, as well as the probability assessment of risk occurrence, by keeping, for each identified risk, a *Risk& Control Assessment Form*
3. It ensures the management and implementation of measures set for the associated process implementation risk control;
4. It ensures the supply of complete and in-due-time information on the status of risks and performance of the control measures within the risk management responsible department;
5. It ensures the availability of specific risk management mechanisms, proper process control procedures (standards, regulations, corporative policies on certain type of risks management), and aiming at reducing the risk level.

The purpose of the company is to identify, assess and minimize the risks associated to communities, employees, contractors, environment and our business.

The company is concerned with maintaining and continuous improvement of the Quality Environment Health and Safety Management Integrated System, with results on the improvement of the organization image, improvement of relations with the public authorities, socio-economic community as a whole, limitation of civil and penal responsibility, by meeting the clients, legal requirements and regulations on Quality Environment and Safety.

In this respect, Rompetrol Rafinare holds certifications on all vehicle fuels on the market and the QHSE Management Systems was maintained throughout 2017 as well. The management system for the Sustainability Requirements Management System (ISCC) has also been certified according to International Sustainability & Carbon Certification System (ISCC).

Rompetrol Rafinare S.A has taken all the appropriate actions to achieve the objectives regarding health and occupational safety and also activities necessary to comply with the legal requirements and regulations.

In 2017, the company still continued to identify and assess the major dangers generated by normal operation as well as accidental circumstances, as well as to assess their probability and severity, to this purpose performing HAZOP type risk analysis, for four technological installations Rompetrol Rafinare (“HB”, “HDV”, “DAV”, “CX”) and one HAZID type risk analysis for Pyrolisis.
The implementation of the Change management (MOC) also continued with the help of a dedicated application, so that the identification/tracking/communication/review and approval of the changes could be secured before implementation.

"The operation authorization" of the rescue Stations from both Industrial platforms, has been maintained through the surveillance audit carried out by INCD INSEMEX Petroşani. The operative staff who work within the rescue Station were reauthorized by INSEMEX Petrosani.
For the training of the staff operating on platforms, and on the basis of the scenarios from the Internal Emergency Plan, there are carried out regularly simulation exercises of a major accident in which there are also involved the subcontractors. Also, during 2017, practical exercises have been carried out with the staff, having as a subject “the use of extinguishers of all types”.

The safety awareness program "Safety Rompetrol" has been continued, pursuing the development and implementation of the management of health and occupational safety to the highest standards and the achievement a level of safety comparable to the levels of the most famous companies in the world.
The program is aimed to improve the activity regarding work safety, in order to raise the awareness of workers, including the subcontractors, in respect with adopting a safe behavior and reducing the risks of injury and/or professional illness specific to all activities on the platforms Petromidia and Vega.

1.1.9. Elements of perspective regarding the activity of the company

a) Presentation and analysis of the trends, elements, events or factors of uncertainty which affect or could affect the liquidity of the company as compared to the same period of the previous year.

The company made efforts to maintain its capacity to cover the current debts from the current assets; the liquidity ratio increased from 0.44 in 2016 to 0.54 in 2017.

The liquidity risk derives from the possibility that the financial sources may not be available in such a way as to meet the obligations of the company in due time. The Company management follows the liquidity level daily, as well as ensuring that its obligations towards suppliers, the state budget, local budgets, etc. are met in accordance with their maturity, with the aid of the expected cash. The coefficients of current and immediate liquidity are monitored at all times.

Knowing the effects of these liquidity risks constitutes one of the concerns of the management of the company Rompetrol Rafinare S.A. in conducting the economic-financial activity in a smooth way. Ensuring continuous funding sources also to the planned levels has been made possible by an appropriate credit-granting policy related to identifying the current needs and the needs for investments.

The activity of the company will continue to be influenced by developments in the international situation as far as the market of crude oil and petroleum products is concerned, as well as by a series of internal macroeconomic factors.

In the specific market context of petroleum products, marked by a high volatility of prices, the management of the company has implemented a policy of risk management with the main objective: the mitigation of risk regarding the price of crude oil and petroleum products in the financial results of the company. In addition, a major concern has also been granted to the policy of risk management regarding the development of the exchange rate and the interest rate.
The Company is affected by the volatility of crude oil, oil product and refinery margin prices.
Its operating activities of the Company require ongoing purchase of crude oil to be used in its production as well as supplies to its customers. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Comnpany's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Starting with January 2011 the Group implemented the hedge policy within Rompetrol Rafinare.

b) Presentation and analysis of the effects of capital expenses, current or anticipated on the financial situation of the company as compared to the same period last year.

The investment activity in the year 2017 has focused, in accordance with the program, on the following:

- The increase of the processing capacity of the refinery and the generation of fuels, with the specification in line with the European standards as also an increase of the white products efficiency;
- The alignment with the requirements of the European Union, the environmental standards in force, and in particular with the aim of reducing emissions.

The main projects completed in the year 2017, in the Petromidia Refinery:

➢ ***T2-417E Tank Rehabilitation***

The implementation of project "T2-417E Tank Rehabilitation" continued (project executed in two phases) as part of the General Master Plan Program, the objective of which is to maintain to an optimal value the storage capacity for Petromidia refinery products and the alignment with the safety requirements. The project was finalized on June 12th, 2017.

➢ ***Expire authorization ISCIR for static equipment (2017)***

Project scope consisted in aligning to legislation requirements in terms of safety functionality of the Refinery and Petrochemical equipment.

Benefits of project implementation By implementing of this project it was obtained:

- Running with the refinery units in safety conditions according to legislation in force, as a result of detailed verifications which will be performed during this evaluation program
- Obtaining the functioning authorization for the pressurized equipment, pipes and lifting equipment as per Technical Prescriptions

➢ ***Implementation of APC (Advanced Process Control) in CDU***

The APC on CDU project scope of work was to optimize operational CDU unit activities, licenses acquisition for three years and perform a Refinery Master Plan for future APC prioritization in refinery units. Main objectives of APC project was to maximize the feed and yields of the white products, to stabilize CDU daily operations and to obtain a better control of CDU constrains.

Another main objective was to reducing and optimizing heaters fuel gas consumption for CDU.

The project execution started at beginning of 2017 and was completed on December 22, 2017 with "performance test" and we obtaining good results according with our expectations.

c) The presentation and analysis of the events, transactions economic changes which significantly affect the income from the main activity.

The turnover on 31.12.2017, in amount of Lei 11,192,755,314, is bigger than the one forecast in the budget by 21%, and bigger than the one registered at the end of 2016, by RON 2,418,433,465. This is due mainly to increasing in finished goods price compared with budget provisions (altough in terms of quantities the sales have grown up).

d) Others:

I. Procedures in which the Company, Rominserv SRL and employees of the 2 companies are involced, following the procedure of the technical incident at Petromidia Refinery on August 22nd 2016:

On august 22nd 2016, a technical incident occurred on the Vacuum and Atmospheric Distillation followed by fire extincted by the refinery personnel together with the private and public fire-fighting brigades. Following the incident, two employees of Rominserv SRL, member company of the Group KMG International, suffered burns and two persons died. The competent authorities initiated investigations trying to establish the circumstances and causes that generated the technical incident, the accident and death of the Rominserv SRL employees. As far as the work accident is concerned, the Public Procesutor's Office attached to the Court of Appeal was notified *ex -officio,* opening file no 586 / P / 2016, within which, the employees of the two companies were inteviewd and a technical expertise was ordered. Following the conclusion of the criminal investigation, Rompetrol Rafinare S.A., Rominserv SRL and 4 employees of the 2 companies were sent to trial on account of: not having taken the occupational health and safety measures, guilty bodily injury, manslaughter, accidnetal pollution. At the same time, the Rompetrol Rafinare S.A. file also features as responsible civil party. Following the initial stage of the trial, of preliminary hearings, on 01.03.2017 the court ascertained the relative nulity of indictment no 586/P/2016 of 07.12.2016 Public Procesutor's Office attached to the Court of Appeal Constanţa, the non-regularity that attracted th eimpossibility of establishing the object or court limitations on indictment no 586/P/2016 of 07.12.2016, and ruled that the investigation body notify if they maintained their disposition of going to trial or if they requested the restitution of the cause. By final conclusion of the preliminary hearings no 328/21.03.2017 the court ruled, that taking into consideration that the prosecutor had not answered within the procedural term of 5 days, the cause be restituted to the Public Prosecutor's Office attached to the Court of Appeal Constanta. The solution was contested by the Public Prosecutor's Office attached to the Court of Appeal Constanta, the contestation was rejected, and maintained the initial decision of the court of law. At the same time, the Teritorial Labour Inspectoarte notified the Company with the Minutes of March 10th, 2017, document based on which, the Company was sanctioned with a fine in amount of 18,000 lei, sanction contested in court, the litigation being under trial at the time of drafting the report.

II. Procedures regarding the Company's obligations to the environment

On November 15th, 2017 Garda Nationala de Mediu, performed an inspection at Vega refinery to ascertain the implementation stage of the acidic pitch pits remediation project, for which an environment agreement had been obtained. Following the inspection, the ascertainment notice was issued, based on which the Company was sanctioned with a fine in amount of 100.000 lei. At the same time, Garda Nationala de Mediu informed the Environment Protection Agency Prahova requesting to analyze the situation and order accordingly. On November 21st, the Environment Protection Agency Prahova sent to the Company the prior Notification requesting it to observe th eprovisions of the Inetgrated environment Permit regarding the remediation of the acidic pitch pits, setting December 21st 2017 as compliance term, the sanction established by the environment authority in case of non-compliance being the suspension of the regulation document.
Against the documents issued by the environment authority, the Company initiated the following procedures:

a) Act of aprehension against the ascertainment notice issued by the Garda Nationala de Mediu;
b) Act of apprehension against the prior notification issued by the Environment Protection Agency Prahova;
c) Request to suspend the prior notification, registered with the Court House Constanta, a requestion with a favourable solution for the Company on February 5th, 2018;
d) Complaint against the fine sanctioned by Garzii Nationala de Mediu, litigation in process.

On December 20th, 2017, the Company notified the competent environment authorities of initiating the works of the remediation project. Also, there were initiated actions, regulated by the legislation applicable against administrative documents issued by the environment authorities.

2. TANGIBLE ASSETS OF THE COMPANY

2.1. Mentioning the location and characteristics of the main production capacities owned by the company

The company ROMPETROL RAFINARE S.A. is located about 20 km North of the Constanţa County, between the Black Sea and the lake Năvodari (Taşaul), on a plot of land partly recovered from the sea and from the lake, in the vicinity of the port Midia and the Poarta Albă – Midia channel.

The Petromidia Refinery is the only profiled unit in Romania located at the Black Sea, and thus having a competitive advantage due to the immediate access to the sea and river transport routes, namely:

- Strategic placement in the Black Sea area, near the Constanţa port - one of the biggest in the region;
- Direct access to the Danube - Black Sea Channel;
- Direct access to the Midia Port;
- Near the network of crude oil pipes;
- Own railway infrastructure system;
- Logistical facilities (Midia Marine Terminal S.R.L.) which allow for reception and delivery of the liquid products by ships, barges, rail tankers and tank wagons.

➢ Nominal project capacity from 1975: **3.5 million tonnes raw material**

➢ Utilized capacity: **5.66 milion tonnes raw materials in 2017** (pursuant to the refining capacity expansion project)

➢ Future capacity what will be used in 2018: **5,44 milion tonnes raw material/year**

➢ Infrastructure:

The Petromidia platform has a surface of 480 hectares where more than 20 companies (also including sub-contractors from outside the Group) operate in various business areas.

The supply of crude oil and other raw materials is mainly carried out through the marine terminal located in the vicinity of the Petromidia Refinery, at a distance of about 8 km from shore and through the Midia port. As an alternative, the supply may also be made through the port of Constanţa (one of the biggest in the region), through the OIL TERMINAL S.A. pipe, for a distance of approximately 40 km.

As of 2014 the Petrochemical sector joined the Refinery in the Refining business unit. The Petrochemical sector is specialized in the production of polymers, with a production capacity of 80,000 tonnes/year of polypropylene, 60,000 tonnes/year of high-density polyethylene and 60,000 tonnes/year of low density polyethylene. It is the sole national producer on this market segment. It delivers on both internal and external markets (the Black Sea and the Mediterranean regions, Central and Eastern Europe).

Strategically located on the Black Sea coast, the Petrochemical section includes a maritime terminal for the unloading of ethylene, cryogenic ethylene and propylene storage tanks, and various solutions for delivery to ships, rail cars or trucks.

As of December 2007, the VEGA Refinery was transformed into a production tax warehouse for Rompetrol Rafinare SA.

The VEGA Refinery is located on the national road DN 1A, at a distance of approximately 60 km from Bucharest, the capital of Romania, near the European road E 60, with access to both the road and the railway network.
The Vega Refinery is located in the northern part of Ploieşti city, about 1 km from the Ploieşti North railway station, with which it is directly connected. The exploitation of the railways as also the manoeuvre and transport operations shall be carried out by the Romanian railway company Group Feroviar Român, its owner being the Rompetrol Logistics S.A.

The Vega Refinery is currently operating the following facilities: Vacuum distillation, Bitumen, Hexane, Rectification, Dearomatization Unit, AFP Unit. Auto platforms and railways related to AFP Unit are operated by MMT.

Currently, the raw materials are brought in the refinery in railway reservoirs from the Petromidia Refinery and are discharged through raw material-specific railway platforms. From the specially prepared platforms, the raw material is pumped through the pipes towards the storage reservoirs of the AFP area, where they are taken up by each plant separately.

The Refinery has a fleet of reservoirs of raw material and finished products, auto platforms and the railway platform for the delivery of petroleum products. At the moment, the supplies of petroleum products from the Vega Refinery are made in both railway reservoirs and in tank wagons.

2.2. Description of the company's properties.

On December 31st, 2017, the accumulated depreciation of the fixed assets, tangible assets (expressed in lei) is as follows:

Depreciation of tangible assets	Balance on 01.01.2017	Balance on 12.31.2017
Lands-(developments)	24,060,893	25,900,827
Constructions	927,474,023	0*
Technical equipment and machinery	1,603,554,578	1,817,186,245
Other facilities, equipment and furniture	6,144,602	6,999,575
Total	**2,561,234,097**	**1.850.086.648**

**In 2017 the amortization in amount of 981,048,534 RON was cancelled on the date of re-assessment for class 212 – Buildings by report to the gross value of the re-assessed assets.*

2.3. Potential problems related to the ownership right regarding the tangible assets of the company.

1. On September 10th, 2010, ANAF issued a decision of destraint upon al participatins owned by Rompetrol Rafinare in its affilitaed companies, as well as on the assets and real estates of Rompetrol Rafinare, excepting the stocks. This measure is still inforce, at the time of drafting this report, the destraint producing no direct effects on the current operations of the Company.

At the date of drafting this report, the Romanian State waved the trials within all on-going litigations whose object was in connectin with the modality of application of the procedures of GEO no 118/2003, approved with amendments by Law no 89/2005.

The termination of debts of Rompetrol Rafinare SA to the Romanian State, generated by the modality of aplication of GEO no 118/2003, with its subsequent amendments, makes us foresee that the destraint presented in this chapter shall be waved shortly, on lack of grounds.

2. On May 16th 2016, the Public Prosecutor's Office attached to the High Court of Cassation and Justice – Investigation Office of Organized Crime and Terrorism issued the Order of distraint on all the participations owned by Rompetrol Rafinare in its affiliated companies, as well as on the assets and real estates of Rompetrol Rafinare, excepting the stock and debts.

3. The Emergency Situations Inspectorate summoned to the Court of Constanta, on the grounds of : a) ascertaining its quality as holder of the right to property on the following assets belonging to Rompetrol Rafinare SA: dormitory (for singles) C4 – Midia, the afferent fire and the total surface of 7774 sqm afferent to these, including the surface convered in concrete of 7050 sqm; b) correction of

the land register and ordering on which right it is preferably and better characterized with concern to these buildings.

4. In 2016, Marway Fertilchim SA, currently known as Novifert SRL, sommon in contradiction with Rompetrol Rafinare SA two actions that are now undergoing solutioning in lower court:

- An action of delimitation of property on-going at the Court of Constanta, regarding setting the delimitation between the secondary headquarters of Rompetrol Rafinare SA at Navodariand the building belonging to the plaitiff in surface of 51,873 sqm, identified with land register no 103053, and imposing to Rompetrol Rafinare to quiet enjoyment and peaceful possession the land that would result from measurements as belonging to Novifert.
- The arbitration requestion on-going at the International Commercial Arbitration Court with the Chamber of Commerce and Industry of Romania, requesting the imposition on Rompetrol Rafinare SA to put back in position and repair the pipe system on the property of Novifert, deallocated by Rompetrol. Also, there is the request to impose on Rompetrol Rafinare to execute all the construction, repair and maintenance works assumed by the Agreement of the parties and authenticated at no 1548/11.06.2001. by the same action, it is requested to impose on Rompetrol Rafinare SA to give back to Novifert SRL the assets that made the object of the Bailment Agreement in 2001. On the date of drafting this report, the arbitration request addressed by plaintiff Novifert SRL was partly admitted, Rompetrol Rafinare SA being obliged to restitute the goods that made for the object of the Bailment Agreement and the goods property of the plaintiff, existent on the land afferent to he secondary headquarters of the accused. Yet, at the same time, the claims of the plaintiff Novifert SRL of imposing to Rompetrol Rafinare SA to repair the pipes property of Novifert SRL were rejected. Also, the counterclaim addressed by Rompetrol Rafinare SA was partly admitted, having ascertained the easement right of Novifert SRL on the land of Rompetrol Rafinare SA. The deision ruled by the arbitration court was attacked by action in annulment by Novifert SRL.

5. File no 28860/281/2014 is under trial at the Cour of Ploiesti, having as object the action addressed by the Pediatrics Hospital Ploieşti requesting the court to ascertain the right of property of the hospital on the dispensary building on the premises of the operational unit of the Company at Ploieşti. The action was suspended.

3. SECURITIES ISSUED BY THE COMPANY

The issuers whose securities are admitted for trading on a regulated market shall include the Declaration of compliance or rejection of the provisions of the Corporate Governance Code. Thus, all relevant information on corporate governance practices has been included in the Corporate Governance section and the "Corporate Governance Declaration" corresponding to the 2017 Annual Report.

3.1. The markets in Romania and in other countries on which the securities issued by the company shall be negotiated

Starting with 07 April 2004, the company's shares are traded on a regulated market operated by the Bucharest Stock Exchange (Bursa de Valori Bucureşti S.A. - "BVB").

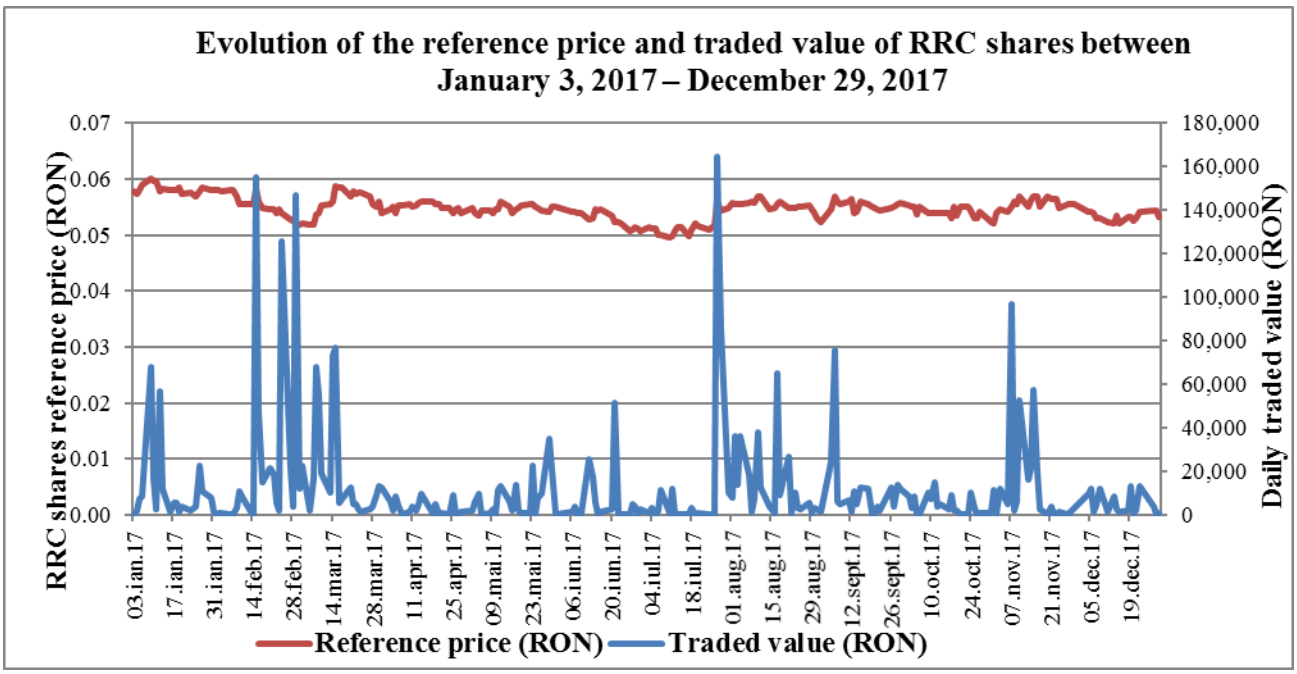
The shares of Rompetrol Rafinare are traded at the Standard category of the Bucharest Stock Exchange. On 12/31/2017, the total number of shares issued by the Issuer is 44,109,205,726, representing a total value of the share capital of LEI 44,109,205,726. The Company's shares are common, nominative, issued in dematerialized form, whose records are held by DEPOZITARUL CENTRAL S.A. Bucharest.

Pursuant to the legal provisions and to the Articles of Incorporation, each share held confers to the shareholders the right to one vote in the General Meeting of Shareholders, the right to a dividend, the right to appoint and be appointed in the Management Bodies of the Company, the right to participate in the distribution of benefits and assets of the Company at the dissolution of the Company, as well as other rights established by law. The ownership right and any other attributes thereof on the shares shall be transmitted in accordance with the provisions of the legislation of the capital market.

As regards the shares, their transfer is not restricted, it will be carried-out according to the legal provisions applicable and to the provisions of the Articles of Incorporation of the Company.

Symbols of Rompetrol Rafinare shares:	
The Bucharest Stock Exchange	RRC
Bloomberg	RRC RO

Rompetrol Rafinare shares	2015	2016	2017
Number of shares	44,109,205,726	44,109,205,726	44,109,205,726
Stock exchange capitalization, LEI mil. [4]	2,170.173	2,514.225	2,346.61
Stock exchange capitalization, EURO mil. [5]	479.225	553.66	503.60
Maximum price, lei[6]	0.0492	0.0598	0.06
Maximum price, lei[7]	0.0344	0.04	0.0496
Price at the end of the year, lei	0.0492	0.057	0.0532



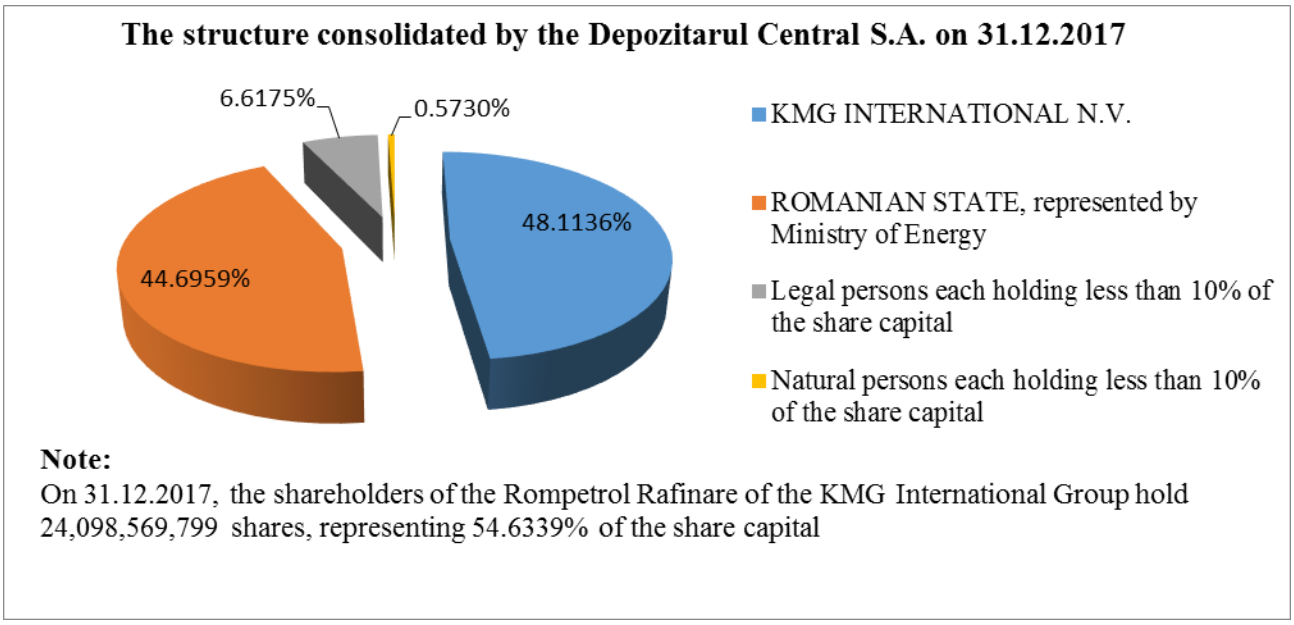
The weighted average price (WAP) of the RRC shares during 2017 = LEI 0.054990589 /share; the volume traded in March represents 19.94% of the total volume traded during 2017 (total volume traded in 2017 = LEI 2,918,649)

[4] *Calculated based on the price of the share on the last trading day of the year under consideration, respectively on 29 December 2017.*
[5] *Calculated at the euro exchange rate (LEI 4.6597) on the last trading session of the year under consideration, respectively 29 December 2017.*
[6] *Registered on 9 January 2017.*
[7] *Registered on 10 July 2017.*

Shareholders of the Rompetrol Rafinare

During the analyzed period, changes meant to influence the value of the Company share capital did not take place.

According to the Register of Shareholders having the consolidation date on 31 December 2017, made available by the Central Depository, the structure of the significant shareholders of the Company is presented in the diagram below:



Source: Depozitarul Central, Rompetrol Rafinare S.A.

3.2. Dividends.

As at 31 December 2015, ROMPETROL RAFINARE registered a profit or LEI 84,291,996, approved by the Ordinary General Meeting of Shareholders of Rompetrol Rafinare dated 28 April 2016 to be distributed as follows:

- Legal reserve LEI 4,214,600
- Coverage of accounting loss of the previous years LEI 80,077,396.

As at 31 December 2016, ROMPETROL RAFINARE registered a profit of LEI 70,001,508, approved by the Ordinary General Meeting of Shareholders of Rompetrol Rafinare dated 27 April 2017 to be distributed as follows:

- Legal reserve LEI 3.500.075
- Coverage of accounting loss of the previous years LEI 66.501.433.

As at 31 December 2017, ROMPETROL RAFINARE registered a profit of LEI 418,336,728, proposed by the Board of Directors of Rompetrol Rafinare to be distributed as follows:

- Legal reserve LEI 20,916,836
- Coverage of accounting loss of the previous years LEI 397,419,892.

3.3. Own shares

ROMPETROL RAFINARE S.A. held on December 31st, 2017 a number of 6,134,701 own shares with a nominal value of Lei 0.10 each, amounting Lei 613,470.10, representing 0.0139% of the registered capital of the Company.

In 2017, the company did not trade (bought, respectively sold) own shares.

3.4. The number and nominal value of the shares issued by the parent company, owned by subsidiaries.

In 2017, the subsidiaries of society have not held shares issued by Rompetrol Rafinare.

4. THE MANAGEMENT OF THE COMPANY

4.1. The company management

The Board of Directors is liable for the fulfilment of all the necessary measures to develop the Company activity, and for the supervisions of the activity. The structure, organization, tasks and responsibilities are established by the Articles of Incorporation, available on our website (www.rompetro-rafinare.ro).

During 2017, the structure of the Board of Directors was amended as follows:

- according to the Decision no. 1 adopted by the Board of Directors on 10 February 2017 by which, starting with 10 February 2017 the appointment of Mr. Alexey Golovin was approved as interim member of the Board of Directors following the submission of the resignation of Mr. Azamat Zhangulov from the position of director and Chairman of the Company Board of Directors, starting with 2 February 2017.

- following the fact that, according to Decision no. 1 of the Board of Directors dated 10 February 2017, the termination of the mandate of Mr. Azamat Zhangulov of chairman of the Board of Directors was acknowledged and the appointment of Mr. Alexey Golovin in the position of interim director was approved, according to Decision no. 2 of the Board of Directors dated 10 February 2017, Mr. Cătălin Dumitru was elected in the position of Chairman of the Board of Directors, starting with 10 February 2017 until 04/30/2018 (expiration date of the mandate of director).

- according to Decision no. 1/2017 adopted by the Ordinary General Meeting of Shareholders dated 27 April 2017, the appointment of Mr. Alexey Golovin in the position of permanent member of the Company Board of Directors was approved for a mandate established as at the date of this general meeting until 04/30/2018 (expiration date of the mandate of the other directors holding their positions on the election date).

As at 31 December 2017, the structure of the Board of Directors was as follows:

- **Cătălin Dumitru, Romanian citizen, Chairman of the Board of Directors;**
- **Alexey Golovin, citizen of Kazakhstan State, Member of the Board of Directors;**
- **Yedil Utekov, citizen of Kazakhstan State, member of the Board of Directors, also holding the position of General Manager of the Company;**
- **Mihai-Liviu Mihalache, Romanian citizen, Member of the Board of Directors;**
- **Marius Mitruş, Romanian citizen, Member of the Board of Directors.**

On the issuing date of this annual Report, the structure of the Board of Directors is as follows:

- **Cătălin Dumitru, Romanian citizen, Chairman of the Board of Directors;**
- **Alexey Golovin, citizen of Kazakhstan State, member of the Board of Directors**
- **Yedil Utekov, citizen of Kazakhstan State, member of the Board of Directors;**
- **Mihai-Liviu Mihalache, Romanian citizen, member of the Board of Directors;**
- **Nicoleta-Viorica Soisun, Romanian citizen, member of the Board of Directors;**

Below, we present the most relevant elements concerning the qualification and professional experience of the Company directors holding their positions as at 12/31/2017.

Name and first name	Age (years)	Position held in the Board of Directors and length of service	Other information (qualifications, professional experience)
Cătălin Dumitru	49	**Chairman of the Board of Directors: 02/10/2017 – present;** - appointed director according to the Decision no. 2/2016 adopted by the Ordinary General Meeting of Shareholders on 04/28/2016 for a mandate to expire on 04/30/2018 (expiration date of the mandate of all directors). - starting with 02/10/2017 he was appointed as Chairman of the Board of Directors (replacing Mr. Azamat Zhangulov)	He studied at the Academy of Economic Studies, Faculty of Finance, Banks and Accounting, Bucharest. He joined the Group in 2002, as Finance Manager for two of the companies within the Group, Rominserv and Ecomaster. Based on his managerial qualities, he was appointed Chief Executive Officer (CEO) of Dyneff Group in 2008, where he successfully coordinated the activities of storage, trading and distribution of products for the end users and partners in Western Europe. Starting with 2014, he is the Vice-Chairman of the KMG International Group and since November 2016 he has been Senior Vice-Chairman of the Group. *Responsibilities*: he holds the following positions within KMG International Group: Chairman of the Board of Directors of KazMunayGas Trading AG, Rominserv Iaifo Zalau S.R.L., Rompetrol Energy S.A. and Rompetrol France SAS; member of the Board of Directors of ROMINSERV S.R.L., DYNEFF TRADING SL and TRG PETROL TICARET ANONIM ŞIRKETI; Sole Director of Dyneff Espagne SL and Dyneff Gas Stations Network SL and general manager on the companies: Dyneff Retail SAS (former Terminal Midi Pyrenees SAS), DPPLN SAS and Dynef SAS.
Alexey Golovin	39	**- Permanent member in the Board of Directors starting with 04/13/2017.** - Interim member in the Board of Directors during 02/10/2017 – 04/12/2017. - Mandate expiring on 04/30/2018 (expiration date of the mandate of all directors).	Alexey Golovin graduated the Faculty of Law "Adilet", a Pre-Master Program of the University of Oxford, Great Britain and Master in Business Administration within the EMBA program Essec & Mannheim. He joined the KMG International Group in November 2009 as Manager of the Corporate Governance Group. In 2011, he was appointed Corporate manager of Marketing and Communication, being in charge with the coordination of the positions of Marketing, Brand Management, Public Relations and Internal Communication, and during 2013 – 2014 he occupied the position of General Manager of Corporate

Name and first name	Age (years)	Position held in the Board of Directors and length of service	Other information (qualifications, professional experience)
			Development and Communication, being liable for the development of the company long term strategy. During January 2015 – December 2016, he coordinated the strategy and activity of the national company KazMunayGas in the processing field, outside Kazakhstan. Starting with December 2016, Alexey Golovin is the Vice-Chairman for Strategic and Corporate Development of KMG International Group. From this position, he coordinates the strategic development, the merger and acquisition projects, public relations, relations with the governmental authorities and sole shareholder. *Responsibilities:* he holds the following positions within the member companies of KMG International group: Vice-Chairman of the Board of Directors of TRG PETROL TICARET ANONIM ŞIRKETI and member of the Board of Directors of Uzina Termoelectrică Midia S.A., Rompetrol Energy S.A. and Rompetrol France SAS.
Yedil Utekov	40	**- Permanent member of the Board of Directors since 03/04/2015.** - Interim member in the Board of Directors between 10/01/2014 – 03/03/2015. Mandate which expires on 04/30/2018 (expiration date of the mandate of all directors).	Graduate of the Faculty of Chemical Engineering of Natural Resources and Hydrocarbons within the State Technical University of Astrakhan, Russia. With a professional experience of more than 10 years in the field of oil and gas, he joined the KMG International Group in January 2010 as Deputy General Manager of Rompetrol Petrochemicals S.R.L. Appointed as General Manager of Rompetrol Rafinare since 12 June 2014, and former Deputy General Manager of the same company since January 2013. He began his oil and gas career in 2001 as a process operator at the Akasaraisky Gas Processing Plant of Russia. Between September 2001 and June 2002, he was operator at ZAO Intergaz Central Asia, Kazakhstan. Beginning with June 2002, he was promoted from the position of engineer within the Atyrau Refinery to that of Environment, Technology, Health and Safety manager. During April 2005 – April 2010, he worked at Agip KCO in Atyrau, Kazakhstan. The last position in this company was that of Group Leader for Technical Inspection and Control during August 2008 – April 2010. *Responsibilities*: he also holds the position of member of the Board of Directors of Rompetrol Petrochemicals S.R.L. within the KMG International Group

Name and first name	Age (years)	Position held in the Board of Directors and length of service	Other information (qualifications, professional experience)
Mihai-Liviu Mihalache	38	**Member of the Board of Directors: 07/20/2015 – present;** Mandate which expires on 04/30/2018 (expiration date of the mandate of all directors). He was appointed as member of the Board of Directors within the General Meeting of Shareholders dated 20 July 2015 with a mandate to expire on 30 April 2018.	He is the representative of the Ministry of Energy. Bachelor of Legal Sciences in 2001. He held the position of legal advisor with Tehnomon S.R.L. During 2003 – 2007 and 2010 - 2013 he held the position of lawyer with `Mihalache Mihai Liviu` Law Firm. During 2007 – 2010, he held the position of parliamentary expert within the Permanent Electoral Authority – Oltenia South – West Subsidiary. He was appointed director by the State Secretary Office within the Ministry of Economy, during July to September 2013 and deputy head of the State Participation Bureau for Privatisation and Industry (OPSPI) within the same institution, and from October 2013 to February 2014. Subsequently, he became head of the OPSPI, up to January 2015. From May 2015 until February 2016 he held the position of General Director of the General Directorate for Trade Companies within M.E.I.M.M.M.A. Since February 2016, he holds the position of expert within the General Directorate for Privatisation and Administration of State Energy Participations – Department of Participation Administration – Legal, Liquidation and Insolvency Compartment within the Ministry of Energy. Since January 2017 until present he helds the position of General Manager of the General Directorate for Privatisation and Administration of State Energy Participations. He was appointed as member of the Board of Director within the General Meeting of Shareholders dated 20 July 2015 with a mandate to expire on 04/30/2018.
Marius Mitruş[8]	37	**Member of the Board of Directors: starting with 04/28/2016** He was appointed as member of the Board of Directors by Resolution no. 2/2016 adopted by the Ordinary General Meeting of Shareholders dated 28 April 2016.	He is the representative of the Ministry of Energy. Bachelor of economy from the Academy of Economic Studies, with a specialization in management, as also holds a license from the National Informational Academy. - he graduated the specialization courses of the Romanian Commercial Bank in the fields envisaging payment instruments, management of assets and liabilities, human resources management. - graduate of the Deutsche Bundesbank courses on international negotiation management.

[8] *On the issue date of this document, upon the request of the Ministry of Energy on behalf of the Romanian State as significant shareholder, the Ordinary General Meeting of Shareholders was summoned on 15 January 2018 and pursuant to Resolution no. 1/2018 of this Ordinary General Meeting of Shareholders, the election of Mrs. Nicoleta-Viorica Soisun as member of the Board of Directors instead of Mr. Marius Mitruş was approved.*

Name and first name	Age (years)	Position held in the Board of Directors and length of service	Other information (qualifications, professional experience)
			- strategy consultant at the Romanian National Bank, performing counselling activities to the institution's executive management. He has experience in coordinating bank competencies, share capital market, capital market, and insurance and financial – tax field, as well as infrastructure, regional development, tourism and community funds. He holds professional competences in reporting procedures of the entities subordinated to the Romanian Government in compliance with the European Union and international legislation concerning fighting against money laundering and financing terrorism.

b) any agreement, understanding or family connection between the Director in question and another person, due to which the person has been appointed as Director.

As far as the Directors are aware, there was no agreement, understanding or family connection between the Directors and another person that has been appointed as Director.

c) The participation of the Director in the share capital of the Company;

According to the consolidated Register of the Shareholders of the Company as of 31.12.2016 issued by the Depozitarul Central S.A., the directors do not own Company shares.

d) The list of persons affiliated to the company;

None of the members of the Company Board of Directors is a person affiliated to the Company, within the meaning of the CNVM Regulation No.1/2006.

4.2. The members of the company's Executive Management

a) The period for which the person is part of the Executive Management;

In accordance with the provisions of the Articles of Incorporation of the Company, the only positions which may delegate the Management of the Company on the basis of the provisions of Article 143 of the Law 31/1991 regarding Companies are those as General Manager and Financial Manager. Any other position as Manager in the Company (human resources manager, commercial

manager, managing director, IT Manager, etc), regardless of its name, does not involve the management of the company.

On 31.12.2017, the two Managers who have been appointed as Managers within the meaning of the above, have been:

Name and first name	Position
Yedil Utekov	General Manager
Vasile-Gabriel Manole	Financial Manager

The Members of the executive management shall perform the positions held for a mandate that will expire on 30.04.2018 (together with the administrators who have chosen them in these positions).

b) Any agreement, understanding or family connection between that person and another person due to which the person concerned has been appointed as a member of the executive management;

We have no knowledge of cases of agreements, understandings or family connections between the members of the executive management and other persons due to which they have been appointed.

c) The participation of this person in the Company.

None of the two Managers under the table of 4.2 a) hold shares in the Company.

4.3. Any litigations or administrative procedures in which the persons referred to in sections 4.1 and 4.2. have been involved, in the last 5 years

None of the two actual Executives holding the positions on the issue date of this report (General Manager and Finance Manager) has been involved in litigations or administrative procedures.

Starting with 22 March 2005, criminal investigations started related to certain former directors, managers and external censors of Rompetrol Rafinare S.A. («RRC»); these ones were officially performed and materialized in various specific criminal procedural activities (including specific judicial expertise), currently under criminal investigation.

The charges brought upon the inception of the criminal prosecution were: a) failure to fulfil the investment commitments undertaken under the privatization contract concerning the Parent Company; b) unlawful declaration of excises and other debts to the state budget; c) incorrect keeping of accounting registries regarding the transactions undertaken at the oil terminal owned by

Oil Terminal. These charges concern events occurred during April 2001 – October 2002. d) status of adoption of the Government Emergency Ordinance 118/2003.

The said charges have been disjoined by the prosecutors' office from the initial case file in 2004 (that was sent to trial following such disjoining and which is definitively closed) and are subject to a separate file currently open before Prosecutor's Office attached to the High Court of Cassation and Justice – Directorate for Investigating Organized Crime and Terrorism.

4.4. Changing the Articles of Incorporation

The Articles of Incorporation may be amended by Decision of the General Meeting of Shareholders, according to the provisions of Law no. 31/1990 on trading companies, in conjunction with the provisions of the Articles of Incorporation. The Articles of Incorporation may also be amended by the Board of Directors of the Company, by delegation of powers by the Meeting of the Shareholders in accordance with the provisions of Art. 114 of Law no. 31/1990 on trading companies.

5. FINANCIAL STATEMENT

The presentation of an analysis of the current economical - financial statement as compared to the last 3 years, with reference at least to:

a) The balance sheet items: assets representing at least 10 % of the total assets; cash and other cash equivalent; reinvested profits ; total current assets; total current liabilities;

THE SITUATION OF THE MAIN INDICATORS DURING THE PERIOD 31.12.2015 to 31.12.2017

A. BALANCE SHEET INDICATORS

	2017		**2016**		**2015**	
	Lei	%	Lei	%	Lei	%
Intangible assets	14,618,988	0%	16,724,850	0.2%	13,330,284	0.2%
Goodwill	152,720	0%	152,720	0.0%	152,720	0.0%
Tangible assets	3,680,205,350	45%	3,018,053,823	44.3%	3,139,544,566	47.5%
Financial assets	1,629,020,055	20%	1,629,020,055	23.9%	1,629,020,055	24.6%
Deferred tax assets	156,961,477	2%	271,373,514	4.0%	228,038,083	3.4%
Total non-current assets	**5,480,958,590**	**68%**	**4,935,324,962**	**72%**	**5,010,085,708**	**76%**
Inventories, net	1,014,258,927	13%	816,627,179	12.0%	520,212,512	7.9%
Debts and expenses Registered in advance, net	1,577,627,271	19%	1,018,626,207	14.9%	1,073,860,703	16.2%
Derivatives	-	0%	22,980	0.0%	-	0.0%
Cash at bank and in hand	22,863,280	0%	45,891,549	0.7%	6,773,869	0.1%
Total current assets	**2,614,749,478**	**32%**	**1,881,167,915**	**28%**	**1,600,847,084**	**24%**
TOTAL ASSETS	**8,095,708,068**	**100%**	**6,816,492,877**	**100%**	**6,610,932,792**	**100%**
Subscribed Share Capital	4,410,920,573	54%	4,410,920,573	65%	4,410,920,573	67%
Premium related to capital	232,637,107	3%	232,637,107	3%	232,637,107	4%
Revaluation reserve, net of deferred tax impact	600,663,192	7%				
Other reserves	3,424,144,892	42%	3,169,670,514	47%	3,172,596,294	48%
Reported loss	(6,507,244,042)	-80%	(6,556,328,713)	-96%	(6,637,120,634)	-100%
Result of the current financial year	418,336,728	5%	70,001,508	1%	84,291,996	1%
Total Equity	**2,579,458,450**	**32%**	**1,326,900,989**	**19%**	**1,263,325,336**	**19%**

Hybrid loan – long term portion	57,155,251	1%	-	0%	-	0%
Long-term loans from banks	-	0%	281,763,783	4%	299,687,700	5%
Provisions	327,130,219	4%	302,311,412	4%	246,183,634	4%
Total long term liabilities	**384,285,470**	**5%**	**584,075,195**	**9%**	**545,871,334**	**8%**
Commercial debts & Other debts	3,981,167,078	49%	3,750,363,002	55%	3,457,659,668	52%
Derivatives	515,760	0%		0%	-	0%
Short term loans from subsidiary companies	683,141,317	8%	1,065,970,431	16%	1,187,404,941	18%
Short term bank loans	467,139,993	6%	89,183,260	1%	156,671,513	2%
Total current liabilities	**5,131,964,148**	**63%**	**4,905,516,693**	**72%**	**4,801,736,122**	**73%**
TOTAL LIABILITIES AND EQUITY	**8,095,708,068**	**100%**	**6,816,492,877**	**100%**	**6,610,932,792**	**100%**

i) Within the assets, an important share (45%) represents **tangible assets** – lands, buildings, technical equipment,construction in progress. At the end of 2017, these reached the value of Lei 3,680,205,350, higher by 22% than that recorded in 2016, respectively by 17% higher than that recorded in 2015 especially influenced by the following factors:

- new investments;
- depreciation of fixed assest.
- Reevaluation of category 212 'Buildings' within tangible assets at 31.12.2017 following the change of accounting policy regarding the recognition of asset category 212 'Buildings' from historic cost to fair value.

ii) Within the **financial assets** (20%), the entire value (Lei 1,629,020,055) is represented by shares and shares held in the affiliated entities. Their value remained at the same level recorded at the end of 2016.

iii) **Receivables and prepayments** (19) are higher than those booked at 31.12.2016 by 55%.

iv) **Share capital** (54%) has a value similar to that at the end of 2016 and 2015, respectively Lei 4,410,920,573;

v) **Equity** of Lei 2,579,458,450, reaching a level nearly double as compared with 31.12.2016 and compared with the equity at the end of 2015.

Under the applicable law and the regulations of the Bucharest Stock Exchange, the listed company Rompetrol Rafinare S.A. was notified by the Financial Supervisory Authority on the fact that the net asset of the company registered a value lower than half of the share capital. The Board of Directors gathered in a meeting on November 10th, 2016 and summoned the general assembly of the shareholders that took place on December 19th, 2016. Besides other topics, the agenda of the meeting established to continue the activities of the company in compliance with art. 153^{24} of Law no 31/1990 on trading companies, republished, and the fact that all necessary measures would be taken to retrieve the situation of the assets. The

Extraordinary General Meeting of Shareholders decided to continue the activity of the company and established the date of December 31st, 2017 for the retrieval of the situation previously mentioned."

Finally, the following operations contributed to the retrieval of the net asset of the Company in 2017:

1. In November 2017, the company concluded a hybrid loan agreement with KMG International N.V. in amount of USD 72.2 million following the conversion of a commercial liability held by the company against KMG International N.V.(approximately Lei 285.5 million, that resulted from the cession of Rompetrol Petrochemicals SRL to KMG International NV of a commercial receivable held against the company). The hybrid loan is unsecured, repayable over 51 years, subordinated to any present and future liability of the company and the interest is registered depending on fulfilling certain legal and profitability conditions. This loan was treated from the accounting point of view as e equity component and recorded in "Other reserves"account.

2. Starting December 31st, 2017, the Company changed the accounting policies regarding the recognition and measurement of tangible assets for category 212 "Buildings", from the cost model to the revaluation model. The change from cost to revaluation will provide a more transparent and up-dated picture of the value of the Company's assets. The fair value of category 212 Buildings was determined using the replacement cost mothod. The assessments were performed by a specialized assessor.
A net gain from the revaluation of category 212 "Buildings" in amount of Lei 695.5 million was recorded in 2017 as follows, revaluation gain of Lei 715.08 million recognized in Revaluation reserves, and revaluation loss of Lei 19.6 million recognized as expense.

In addition to the above-mentioned measures, having a final effect on the improvement of the net asset level, the net profit booked by Rompetrol Rafinare S.A. in 2017, in amount of Lei 418.34 million represented a significant contribution to the Company's net assets growth.

vi) **Trade and other payables** at the end of 2017 were higher by 6% as against 2016 and higher by 15% as against 2015.

vii) In terms of **short-term loans (from affiliates and banks)** their level reached in 2017 a total value of Lei 1,150,281,311 slightly decreasing as against 2016 and lower by 14% as against 2015.

b) The profit and loss account: net sales; gross revenue; elements of costs and expenses incurred with a weight of at least 20% in net sales or gross income; provision of risk and for the various expenditures; reference to any sale or shut down of a segment of activity carried out over the last year or which is to be made in the following year; declared and paid dividends;

Continuous activities	**2017**	**2016**	**2015**
Net Turnover	**11,192,755,314**	**8,774,321,849**	**9,811,196,252**
Gross incomes from the sales of petroleum finished goods	14,727,580,720	12,478,833,569	13,381,679,383
Income from sales of goods	31,297,529	13,848,575	25,126,572
Income from sales of utilities	7,915,850	7,744,388	8,362,308
Income from sales of other products	979,801	626,411	344,264
Income from rents and other services	13,892,564	13,954,205	12,691,852
Gross turnover	**14,781,666,464**	**12,515,007,148**	**13,428,204,379**
Minus sales associated taxes	(3,588,911,151)	(3,740,685,299)	(3,617,008,127)
Total	**11,192,755,314**	**8,774,321,849**	**9,811,196,252**
Cost of sold production	(10,628,344,179)	(8,272,314,522)	(9,406,207,259)
din care:out of which:			
Crude oil and other raw materials	9,783,827,276	7,495,305,590	8,441,193,126
Utilities	338,134,378	325,316,249	309,638,302
Gross Profit/ (Loss)	**564,411,135**	**502,007,327**	**404,988,993**
Distribution and general administrative expenses	(277,870,892)	(215,517,308)	(223,045,325)
Other operational incomes/(expenses)	(63,179,014)	(10,576,941)	222,266,341
Operational Profit / (Loss)	**223,361,229**	**275,913,078**	**404,210,009**
Financial expenses	(159,732,555)	(130,189,378)	(127,796,953)
Financial income	46,439,668	21,170,401	3,268,964
Net (Losses)/ gains on exchange rate difference	308,268,386	(140,228,024)	(423,428,107)
Gross Profit / (Loss)	**418,336,728**	**26,666,077**	**(143,746,087)**
Deferred income tax Revenue	-	43,335,431	228,038,083
Profit / (Loss) exercise	**418,336,728**	**70,001,508**	**84,291,996**

i) The net turnover for 2017 was higher by 28% as compared to last year and by 14% higher as compared to 2015, being supported by an increase of the quantity of finished products sold and

also due to the increase of quotations for petroleum product by comparison to the previous year. Thus the average of gasoline and diesel prices increased by 19% , respectively 24% in 2017 as compared with 2016.

ii) In respect of the **cost of goods sold,** it increased by 28% compared to 2016 and by 13% compared to 2015.

iii) At 31.12.2017, Rompetrol Rafinare S.A. recorded **an operational profit)** of Lei 223,361,229, as against 2016 Lei 275,913,078 and as against 2015 Lei 404,210,009.

iv) Financial expenditures recorded an increase of 23% in 2017 compared to 2016 and 25% compared to 2015. To be mentioned that at the end of 2017, the company recorded a net gain from significant exchange rate differences in amount of Lei 308,268,386, compared to to the loss recorded in 2016 in amount of Lei 140,228,024 and of Lei 423,428,107 in 2015. The favorable exchange rate differences recorded at the end of 2017 were due to the continuous appreciation of the national currency against US Dollar. Thus, if at the end of 2016 1 USD = 4.3033 lei, on 31.12.2017, 1 USD was equal to3.8915 lei.

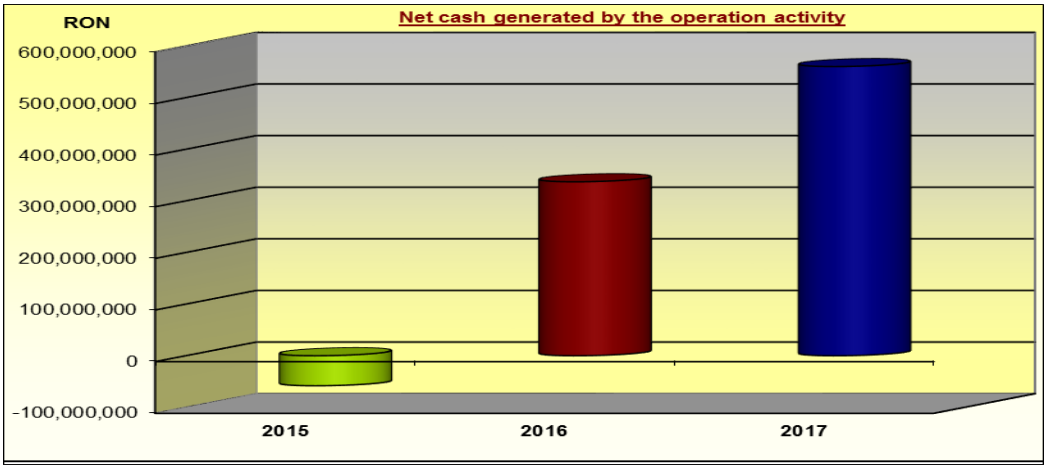
v) In respect of the **final result of the financial exercise concluded on** 31.12.2017, **the Company recorded a profit in amount of Lei 418,336,728**, approximately 6 times higher than that recorded in the previous year in amount of Lei 70,001,508.

According to the legal provisions in force, 5% of the profit shall be set up as legal reserve (Lei 20,916,836) and the difference of Lei 397,419,892 would be used to cover the accounting losses of the previous years.

c) cash flow: all changes which have taken place at cash level in the main activity, investment and financial activities, the cash at the beginning and at the end of the period

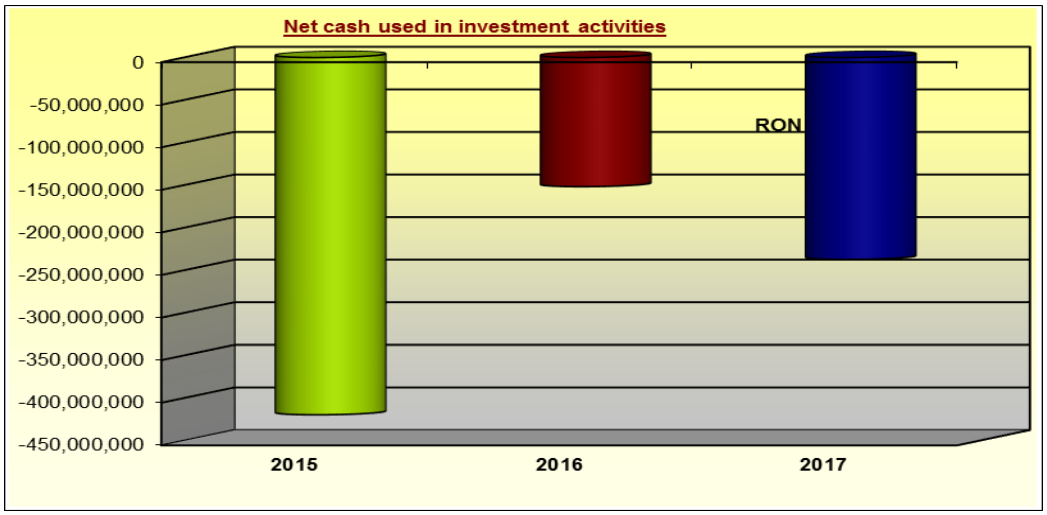
In 2017, the net cash flow show the effort of the company to efficiently match the cash needs from the operation activity with a balanced financing policy.

The cash flows from operating activity were influenced both increase in debt level and commercial debts as well as by the increase of stocks.



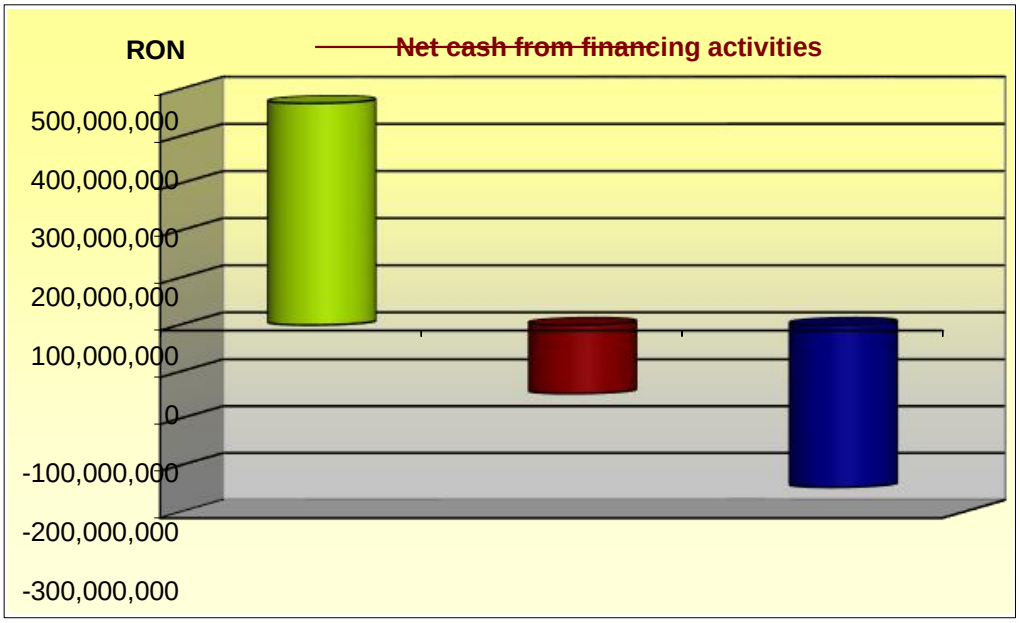
In 2017 Rompetrol Rafinare continued implementing new technologies allowing processing of various types of crude and obtaining new products at the quality imposed by the European standards, as well as the increase yield in white products. A permanent concern was the aligning with the requirements of the European Union and compliance with the requirements of the EU Directives regarding the promotion and use of bio-fuels and of the environment regulations in force, especially aiming to reeduce the emissions of nitric oxides, volatile organic compounds and carbon dioxide and of depositing dangerous waste.

Also, in 2017, the scheduled shutdown of the refinery took place, a project that was initiated for the periodic inspection of the machinery, changing of catalysts, machinery maintenance, etc. Other major investment projects concerned ISCIR equipment authorization/re-authorization, restarting the HDPE unit and rehabilitation of tanks.



Cash flow from financing activities was influenced by the fact that the Company benefitted from a Cash pooling contract – a system of optimization of cash balances, aiming to support both the needs generated by the investment activity as well as by the development of the operational activity of the refinery, and a long-term syndicated credit facility. There were also other factors to have influenced

the cash flow from the financing activity such as reducing the exposure of the company to Bancpost with concern to the open working capital facility and the short-term loan reimbursements received from the affiliate KMG International N.V.



6. CORPORATE GOVERNANCE

Rompetrol Rafinare is a trading company managed in unitary system, issuer of shares listed on the regulated market operated by Bursa de Valori Bucureşti S.A. (Bucharest Stock Exchange) ("BVB"). The admission to trading of the shares issued by the Company on the operated BVB market was decided by the Decision no. 27 dated 03/25/2004 of the Stock Exchange Council regarding the admission to trading and the trading starting date was 7 April 2004. Prior to this date the Company shares were listed on the regulated market operated by RASDAQ.
The Company shares are traded at BVB under the market symbol "RRC".

The Corporate Governance report of Rompetrol Rafinare S.A. for the year 2017 is drafted according to the Corporate Governance Code („CGC" or the „Code"), to Law no. 24/2017 on the issuers of financial instruments and market operations, to Law no. 297/2004 on the capital market, as subsequently amended and supplemented, to the regulations and instructions issued by the Financial Supervisory Authority – "FSA" (former National Commission of Shares and Bonds - „CNVM"), and to the stock exchange regulations.

The scope of the code is to guarantee high transparency and visibility conditions for all shareholders and for all the third parties („stakeholders").

6.1. The BVB standards regarding the Corporate Governance

Rompetrol Rafinare adhered for the first time to the Corporate Governance Code issued by the Bucharest Stock Exchange in 2010 and continues to improve the good corporate governance principles.

Rompetrol Rafinare complies with most of the provisions stipulated by the Corporate Governance Code issued by the Bucharest Stock Exchange, that came into force on 4 January 2016. Further details about the Company conformity with the principles and recommendations provided by the Corporate Governance Code of the Bucharest Stock Exchange are presented in the Corporate Governance Statement, which is an integral part of this Annual Report.
The company proposes to improve the implementation modality of the principles and recommendations of the CGC of BVB.

The statement "Apply or Explain" (see Appendix 1 to the present report) presents the level of compliance by the Company with the new provisions of CGC BVB. Rompetrol Rafinare shall continue to assess the provisions of the Code and any subsequent progress that the Company shall make in complying with it shall be reported on the market. All the "negative" aspects (from conformity to non-conformity) shall also be reported.

6.2. Information on the Board of Directors

As mentioned at art. 4.1 of the present document, the Board of Directors is liable for fulfilling all the measures necessary to perform the activity of the Company, as well as for supervising its activity. Its structure, organization, tasks and responsibilities are set forth by the Articles of Incorporation of the Company, available on the web page of the company (www.rompetrol-rafinare.ro).

According to the Articles of Incorporation updated on 20 December 2016, the Company activity is managed by a Board of Directors composed of 5 members, appointed by the Ordinary General Meeting of Shareholders, who can also be shareholders of the company, natural or legal entities, having Romanian or foreign citizenship respectively nationality. Out of the 5 members of the Board of Directors, 3 are representatives of the main shareholder - KMG International N.V. (out of whom one is executive) and 2 representatives of the significant shareholder – the Romanian State by the Ministry of Energy. The mandate of the actual directors will end on 30 April 2018.

The directors may be replaced under the following situations:

a) Upon the expiration of the 4-year mandate or another period established by the General Meeting of Shareholders at the same time with the appointing of the director;

b) In case of resignation or recalling by the General Meeting of Shareholders.

Upon the mandate expiration, any member of the Board of Directors may be re-appointed by the General Meeting of Shareholders.

The tasks of the Board of Directors, according to the Articles of Incorporation, are the following:

a) establishes the main activity and development directions of the company;
b) establishes the accounting and financial control system and approves the financial planning;
c) appoints, recalls, concludes and terminates the agreements of the Company managers;
d) supervises the managers' activity;
e) prepares the annual report, organizes the general meeting and implements its decisions;
f) introduces the request for opening the company insolvency procedure, according to Law 85/2006 on the insolvency procedure;
g) except for the legal documents for whose adoption / conclusion the approval of the General Meeting of Shareholders is necessary, according to the imperative provisions of the law, approves the adoption / conclusion on behalf of the company of the legal documents whose object exceeds the value of:
   i) USD **50,000,000** as regards the legal documents having as object the supply of crude oil, respectively the distribution of refined products;
   ii) USD **20,000,000** as regards the legal documents having another object than the supply of crude oil, respectively the distribution of refined products, the approval of the participation in the establishment of some trading companies with a contribution exceeding this value, other documents with patrimony content exceeding this value limit;
h) approves the Company organizational structure.

These tasks may not be delegated to the company managers.

The Board of Directors also has the following tasks delegated by the Extraordinary General Meeting of Shareholders under the conditions provided by art. 114 of Law no 31/1990, republished:

a) decides regarding the relocation of the company headquarters;

b) decides regarding the change of the company business object of activity (except for the main domain and the main activities of the company);

c) decides regarding the increase of the share capital by the issue of new shares, according to the law.

The Board of Directors also meets other tasks, established de jure under their charge, by virtue of the applicable normative acts.

As regards the issue of shares, the Board of Directors may initiate this operation within the share capital increase operations, exercised based on the tasks delegated according to the provisions of Law no. 31/1990 corroborated with the provisions of Law no. 24/2017.

During 2017, the structure of the Board of Directors faced only one modification.

During the period 1 January 2017 – 1 February 2017, the members of the Board of Directors were the following:

- Mr. Azamat Zhangulov - *non-executive director and Chairman of the Board of Directors* until 1 February 2017;
- Mr. Cătălin Dumitru - *non-executive director* – member of the Board of Directors starting with 1 May 2016 until 9 February 2017;
- Mr. Yedil Utekov - *executive director*;
- Mr. Mihai-Liviu Mihalache - *non-executive director*;
- Mr. Marius Mitruş - *non-executive and independent director.*

Starting with 10 February 2017, the members of the Board of Directors were as follows:

- Mr. Cătălin Dumitru - *non-executive director, elected Chairman of the Board of Directors* starting with 10 February 2017;
- Mr. Alexey Golovin - *non-executive director* – appointed as provisional member of the Board of Directors starting with 10 February 2017 and elected permanent member of the Board of Directors starting with 13 April 2017;
- Mr. Yedil Utekov - *executive director*;
- Mr. Mihai-Liviu Mihalache - *non-executive director*.
- Mr. Marius Mitruş - *non-executive and independent director.*

On the date of the present report, the members of the Board of Directors are as follows:

- Mr. Cătălin Dumitru - *non-executive director and Chairman of the Board of Directors*;
- Mr. Alexey Golovin – *non-executive director;*
- Mr. Yedil Utekov - *executive director*;
- Mr. Mihai-Liviu Mihalache - *non-executive director*;
- Mrs. Nicoleta-Viorica Soisun – *non-executive and independent director* – elected member of the Board of Directors starting with 15 January 2018;

6.3. Information about the members of the Board of Directors of Rompetrol Rafinare on 31.12.2017

Name, year of birth, nationality, the duration of the mandate for each member of the Management Board, responsibilities in the Rompetrol Group, training and professional qualifications.

The structure of the current Board of Directors is the following:

Cătălin Dumitru
Born in 1968, Romanian citizen.
Duration of the director's mandate: from 05/01/2016 until 04/30/2018.

Non-executive member of the Board of Directors.
Starting with 02/10/2017, he was appointed the Chairman of the Board of Directors, replacing Mr. Azamat Zhangulov who submitted the request to waive of the mandate.

Within the member companies of the KMG International Group, he holds the positions of: Chairman of the Board of Directors of KazMunayGas Trading A.G., Rominserv Iaifo Zalau S.R.L. and Rompetrol Energy S.A. and Rompetrol France SAS; member of the Board of Directors of the company ROMINSERV S.R.L., DYNEFF TRADING SL and TRG PETROL TICARET ANONIM ŞIRKETI; Sole Director of Dyneff Espagne SL and Dyneff Gas Stations Network SL and General Manager of the companies: Dyneff Retail SAS (former Terminal Midi Pyrenees SAS), DPPLN SAS and Dynef SAS.

Responsibilities: Starting with the year 2014, he is Vice-Chairman of the KMG International Group and he is appointed Senior Vice-Chairman of the Group – Operations Block in November 2016.

Professional training and qualifications: graduate of the Academy of Economic Studies, Faculty of Finance, Banks and Accounting – Bucharest. He joined the Group in 2002, as Finance Manager for two of the Group companies, Rominserv and Ecomaster Servicii Ecologice. In 2008, he was appointed Chief Executive Officer (CEO) of Dyneff Group, where he coordinated successfully the activities of storage, trading and distribution of products for end users and partners in Western Europe.

Alexey Golovin
Born in 1978, Kazakh citizen
Duration of the director's mandate: from 02/10/2017 until 04/30/2018[9].

Non-executive member of the Board of Directors

He holds the following positions within the member companies of KMG International Group: Vice-Chairman of the Board of Directors of TRG PETROL TICARET ANONIM ŞIRKETI and member of the Board of Directors of Uzina Termoelectrică Midia S.A., Rompetrol Energy S.A. and Rompetrol France SAS.

[9] *During 02/10/2017 – 04/12/2017 he held the position of provisional director. He was elected permanent director according to the Resolution no. 1/2017 adopted by Ordinary General Meeting of Shareholders dated 04/13/2017.*

Responsibilities: he is the Vice-Chairman for Strategic and Corporate Development of KMG International Group.

Professional training and qualifications: graduate of the Faculty of Law "Adilet", a Pre-Master Program of the University of Oxford, Great Britain and Master in Business Administration within the EMBA program Essec & Mannheim.

Yedil Utekov
Born in 1976, Kazakh citizen
Duration of the director's mandate: from 10/01/2014 until 04/30/2018.[10]

Executive member of the Board of Directors

Responsibilities: General Manager of Rompetrol Rafinare S.A. and General Manager and Sole Directors of Rompetrol Petrochemicals S.R.L.

Professional training and qualifications: graduate of the Faculty of Chemical Engineering of Natural Resources and Hydrocarbons within the Astrakhan State Technical University, in Russia. He began his oil and gas career in 2001 as a process operator at the Akasaraisky Gas Processing Plant of Russia, and during September 2001 – June 2002 he became the operator for ZAO Intergaz Central Asia, Kazakhstan. Subsequently, beginning with June 2002, he was promoted from the position of engineer within the Atyrau Refinery to that of Environment, Technology, Health and Safety manager. In April 2005 – April 2010, he worked at Agip KCO in Atyrau, Kazakhstan. The last position held within this company was that of Group Coordinator for Technical Inspection and Control during the period August 2008 – April 2010. With a professional experience of more than 10 years in the oil and gas industry, Mr. Yedil Utekov joined the KMG International Group (the former name Rompetrol Group) in January 2010 as Deputy General Manager of Rompetrol Petrochemicals. He was appointed as the Company's General Manager beginning with 12 June 2014.

The two new director positions set up by Decision no 7/2011 adopted by the Extraordinary General Meeting of Shareholders on 29 November 2011, which approved the increase in the number of the numeric structure of the Board of Directors from 3 to 5 members, **on 12/31/2017, were taken up by Mr. Mihai-Liviu Mihalache and Mr. Marius Mitruş.** Both of them were appointed for these positions upon the suggestion of the shareholder – the Romanian State – represented by the Ministry of Energy.
Mihai-Liviu Mihalache was appointed member of the Board of Directors by Decision no 6/2015 adopted by the Ordinary General Meeting of Shareholders dated 20 July 2015 and Marius Mitruş was appointed member of the Board of Directors by Decision no 2/2016 adopted by the Ordinary General Meeting of Shareholders on 28 April 2016.

[10] *During 10/01/2014 – 03/03/2015, he held the position of provisional director. He was elected permanent director according to the Decision no 1/2015 adopted by the Ordinary General Meeting of Shareholders dated 03/04/2015*

Mihai-Liviu Mihalache[11]
Born in 1978, Romanian citizen.
Duration of the director's mandate: from 07/20/2015 until 04/30/2018

Non-Executive member of the Board of Directors

Professional training and qualifications: Licensed in legal sciences at the Ecological University, Bucharest, 2001. During 2006 – 2011, he graduated various post-university courses / seminaries, organized by the Vâlcea Bar and respectively The Balkan Trust for Democracy.

Career milestones:
- Expert within the General Directorate for Privatization and Administration of State Energy Participations – Department of Participation Administration – Legal, Liquidation and Insolvency Compartment within the Ministry of Energy (02/09/2016 – present).

- General Manager of the General Directorate for Privatization and Administration of State Energy Participations within the Ministry of Energy (05/19/2015 – 2017 Deputy General Manager, 2017 present General Manager)
- Manager of the State Secretary Office within the Ministry of Energy, Small and Medium Enterprises and Business Environment (01/13/2015 – 05/18/2015);
- Chief of the State Participation Office and Industrial Privatization (Oficiul Participării Statului şi Privatizării în Industrie - OPSPI) within the Minister of Economy (02/28/2014 – 01/13/2015);
- Chief deputy of OPSPI within the Ministry of Economy (10/02/2013 – 02/28/2014);
- Manager of the State Secretary Office within the Ministry of Economy (July – September 2013);
- Lawyer for the Law Firm "Mihalache Mihai Liviu" (2010 – 2013 and October 2003 – 04/01/2007);
- Parliamentary Expert – Permanent Electoral Authority – South-West Branch Oltenia (04/01/2007 – October 2010);
- Legal advisor within TEHNOMON S.R.L (2002 - October 2003)

Marius Mitruş[12]
Born in 1979, Romanian citizen.
Duration of the director's mandate: from 04/28/2016 until 01/14/2018

Non-executive independent member of the Board of Directors.

Professional training and qualifications: Licensed in economics by the Academy of Economic Studies, Specialization – Management, as well as by the National Information Academy. Graduate of the specialization courses held by the Romanian Commercial Bank in the fields aiming the

[11] *Proposed to the Board of Directors of the Company by communication no 102293 dated 06/04/2015 addressed by the Ministry of Energy, Small and Medium Enterprises and Business Environment (under its current designation Ministry of Energy) – Minister's Office.*

[12] *Proposed in the Company Board of Directors by appointment no. 101.326 dated 04/04/2016 formulated by the significant shareholder – The Ministry of Energy – Minister's Office.*

payment instruments, assets and liabilities management, human resources management and also studies organized by Deutsche Bundesbank related to international negotiation management.

Career milestones:

- strategy consultant for the Romanian National Bank – specific executive management counselling activities (Governor of the Romanian National Bank);
- Deputy Manager (2009 – 2013), Chief of Institution within a public institution (2007 – 2009), Head of Office (2004 – 2007), expert (2001 – 2004) for the Institution, holding tasks in the field of national securities;
- Non-executive member of the Board of Directors of the Energy Administration and Participation Company (2014 – 2016).

6.4. This presence of the administrators in the meetings of the Board of Directors

According to the Articles of Incorporation, the Board of Directors shall meet at least once every three months and whenever required. The members of the Board of Directors have permanently paid attention to the diligence and loyalty tasks towards the Company. Thus, the members of the Board of Directors and of the Executive Management made decisions related to the activity of Rompetrol Rafinare to its sake. During 2017, the Board of Directors met within 13 meetings. On the agenda of the meetings of the Board of Directors, there were issues regarding the current activity performed by the Company or its subsidiaries such as: in order to approve the Annual Report and to organize the ordinary general meeting to approve the annual financial results; including the information documents and materials to be submitted to the approval of the GMS; in order to approve the reports and the materials associated to the half-yearly and quarterly financial results; approval/ratification of significant legal documents for the supply with raw materials, electricity, etc. and the sale of oil products; in order to appoint Mr. Alexey Golovin as provisional member of the Board of Directors starting with 10 February 2017 until the adoption date of the decision of the next Ordinary General Meeting of Shareholders related to the election of a new permanent director, following the waiver of the mandate by Mr. Azamat Zhangulov; for the appointment of Mr. Cătălin Dumitru in the position of Chairman of the Board of Directors, starting with 10 February 2018, following the waiver of this position by Mr. Azamat Zhangulov; the approval of the summoning of the Ordinary General Meeting of Shareholders dated 13 April 2017 for the approval of the election of a new permanent director as well as for the approval of the proposal of the Company Executive Management for the appointment of Ernst & Young Assurance Services S.R.L. in the position of financial auditor of the Company for the financial year 2017; the approval, in principle, following the analysis of the recovery options of the Company net assets (increase / decrease of the share capital, reevaluation of the fixed assets, restructuring of the debts according to certain financial criteria), the implementation of the restructuring option of debts as a recovery method of the net assets; the approval of the organizational structure of the Company; the approval of opening of bank accounts, the approval of an Addendum to extend with 1 year, that is until 23 April 2018, of the Auxiliary Uncommitted Facility overdraft type amounting to USD 25,000,000, concluded with Banca Comercială Română S.A., facility granted pursuant to the Credit Facility Agreement amounting maximum to USD 360,000,000, agreement concluded on 04/23/2015 between the

company, as borrower, together with Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL, KMG International NV, as borrowers, Banca Comercială Română SA together with UniCredit Bank S.A, Raiffeisen Bank SA, ING Bank NV, by ING Bank NV Amsterdam Bucharest, and Unicredit Bank AG, London branch office, as facility agent; approval of the Measures Schedule to recover the net assets and other financial accounting operations, stocks plan referred to: *a)* partial restructuring of the Company debts and *b)* other financial and accounting operations.

During the meeting of the Board of Directors on 11/14/2017 the legal documents necessary to implement the change of the accounting policy for the category 212 - ”Constructions”, from the cost-based actual method to the reevaluation method were approved.

During the meeting of the Board of Directors dated 11/15/2017 the necessary legal documents were also approved for the implementation of the partial debt restructuring, that is:

- The restructuring of the company debt amounting to LEI 285,493,354.14, through the assignment of the receivable of Rompetrol Petrochemicals S.R.L. against Rompetrol Rafinare S.A. to KMG International N.V. and followed by the transformation of this receivable held against the Company in a long term debt, not secured, subordinated to the present and future debts, with specific and legal terms, concluded between the Company (borrower) and KMG International NV (lender);

- During the same meeting, the conclusions of the evaluation report issued by PricewaterhouseCoopers Management Consultants SRL were approved for the category of tangible assets category 212 - „Constructions”, following the previous approval of the change of accounting policy for the recognition and subsequent evaluation for this category of tangible assets;

During the same meeting, the Board of Directors adopted the statutory decision, as sole shareholder of Rompetrol Petrochemicals S.R.L., in order to approve the conclusion by the latter one of the receivable assignment mentioned above, as well as the decision to summon the Extraordinary Meeting of Shareholders dated 20 December 2017 in order to: *(i)* take note of the implementation of the measures approved by the Board of Directors in order to regulate the net assets related to the share capital; *ii)* in order to ascertain as provisional title, the adjustment of the report of net assets compared to the value of the subscribed share capital, provided that the adjustment of the net assets is acknowledge based on the audited financial statements corresponding to financial year 2017; and *(iii)* to take note of the Report issued by the company Executive Management related to the preventive measures related to the occupational health and security norms adopted by Rompetrol Rafinare S.A. in 2017.

The agenda of the meetings of the Board of Directors included aspects such as: the approval of the summoning of the Ordinary General Meeting for the date 15 January 2018 in order to elect Mrs. Nicoleta-Viorica Soisun as member of the Board of Directors for a mandate until 30 April 2018 following the revocation of Mr. Marius Mitruş from this position, summoning requested by the significant shareholder the Romanian State, duly represented by the Ministry of Energy, pursuant to

the provisions of art. 119 par. (1) of Law no. 31/1990; other approvals for the development under good conditions both of the Company activity and of its branch offices, etc.

During year 2017, the structure of the Board of Directors suffered two modifications that is: *(i)* following the Decisions no. 1 and 2 adopted by the Board of Directors on 10 February 2017 by which Mr. Alexey Golovin was appointed as provisional director following the waiver of the mandate by Mr. Azamat Zhangulov from the position of director and chairman of the Board of Directors and the election of Mr. Cătălin Dumitru as chairman of the Board of Directors; *(ii)* following the Decision no. 1/2017 adopted by the Ordinary General Meeting of Shareholders dated 13 April 2017 according to which Mr. Alexey Golovin was elected the permanent director of the Company, for a mandate starting with the date of this meeting until 30 April 2018.

All meetings of the Board of Directors were held with the presence of the 5 directors according to the provisions of the Articles of Incorporation.
Most of the meetings were held electronically by email.

The decisions of the Board of Directors in 2017 were adopted in unanimity or with majority of votes of the attending members (in some cases, some abstention votes were formulated but no vote against was registered).

The table below outlines the attendance of the directors at the meetings of the Board of Directors, for the year ended as at 31 December 2017:

Name	Presence
Azamat Zhangulov[13]	0/0/13
Cătălin Dumitru [14]	13/13/13
Yedil Utekov	13/13/13
Mihail-Liviu Mihalache	13/13/13
Marius Mitruş	[15]13/13/13
Alexey Golovin[16]	12/12/13

The first figure indicates the number of meetings in which the person in his capacity as director has participated, the second figure represents the number of meetings conducted during the mandate of 2017, and the third figure represents the total number of meetings held during 2017.

Following the request formulated by Mr. Azamat Zhangulov to waive, starting with 1 February 2017, of the mandate of director and chairman of the Board of Directors, Mr. Alexey Golovin was appointed the provisional director of the Company starting with 10 February 2017, and Mr. Cătălin Dumitru was elected the Chairman of the Board of Directors starting with the same date of 10 February 2017. Within the Ordinary General Meeting of Shareholders dated 13 April 2017, Mr. Alexey Golovin was elected the permanent director of the board of directors.

[13] *Director and chairman of the Board of Directors until 1 February 2017*
[14] *Chairman of the Board of Directors starting with 10 February 2017*
[15] *In a meeting of the Board of Directors they granted power of attorney to another member of the Board*
[16] *Provisional Director starting with 10 February 2017 then permanent Director starting with 13 April 2017*

6.5. Advisory Committees, non-executive Managing Directors and the independence of the Managing Directors

Considering that the organization within the KMG International Group involves the existence of supporting operations positions with various responsibilities, it was not required to set up consultative committees at the entity level (audit, nomination, remuneration committees, etc.) The relation between the company and the positions at the level of KMG International Group is regulated by services agreements. The Board of Directors may assign some matters to some of its members, who should act severally and/or may recur to experts to analyze certain aspects.

The remuneration of the members of the Board of Directors is established every year by the Ordinary General Meeting of Shareholders, for the current year. The remuneration of the members of the Board of Directors and of the directors (executive and non-executive) is presented in the Explanatory Note no. 22 corresponding to the separate annual financial statements as at 12/31/2017.

The compensations paid to the company directors, during 2017, amounted to LEI 761,473 (LEI 765,299 in 2016). The salaries and bonuses paid to the Company management during 2017 (on an average 12 individuals) amounted to LEI 2,931,739 (LEI 2,955,160 in 2016, on an average 13 individuals).

According to the assessment criteria for the independence of the non-executive members in the Board of Directors, one single member – Mr. Marius Mitruş – in office as at 12/31/2017, met the independence criteria stipulated by the principles and recommendations of the Code.

Assessment of the Board of Directors

The Board of Directors did not initiate any assessment program for its activities during 2017.

6.6. Information on the General Meeting of Shareholders and the Shareholders' rights

The General Meeting of Shareholders (“GMS”) is the main corporative forum of Rompetrol Rafinare S.A. having decision making tasks on detailed activities within the Article of Incorporation of the Company. The Summons, functioning, voting process as well as other provisions related to the GMS are detailed in the Articles of Incorporation of Rompetrol Rafinare S.A.

According to article 11 of the Company's updated Articles of Incorporation, corroborated with the applicable legal provisions, the Ordinary General Meeting is summoned at least once a year, within the term required mandatorily by the law, and includes the following main tasks:

a) to discuss, to approve or to modify the annual financial statements, based on the reports presented by the board of directors and by the financial auditor and to establish the dividend;

b) to appoint and to revoke Company directors;
c) to appoint and to establish the minimum duration for the financial audit contract, and also to revoke the financial auditor;
d) to establish for each current financial year the remuneration owed to the directors;
e) to pass opinion on the directors' manner of administration;
f) to establish the income and expenses budget, and, if such is the case, the activity schedule, for the following financial year;
g) to decide the pledge, the lease or the cancellation of one or more units of the Company;
h) to approve the maximum limits of the remuneration of the people handling/having managing positions according to the legal provisions in force.

The Extraordinary General Meeting has the following tasks:
a) to change the Company's legal form;
b) to move the headquarters of the company;
c) to change the company's object of activity;
d) to set up or to dissolve secondary offices: branch offices, agencies, representations or any other such units without legal personality;
e) to extend the company duration;
f) to increase the share capital;
g) to reduce the share capital or to replenish it by the issue of new shares;
h) merger with other companies or the division of the company;
i) the company's anticipated dissolution;
j) conversion of shares from one category to another;
k) conversion of one category of bonds into another one or into shares;
l) issue of bonds;
m) any other change of the articles of incorporation or any other decision for which the extraordinary general meeting consent is required;

The Extraordinary General Meeting delegates the Board of Directors to exercise the tasks mentioned at letters b) and c) of the paragraph above from the revised Articles of Incorporation.

Moreover, the Extraordinary General Meeting may delegate to directors the increase of the share capital, according to the provisions of art. 85 of Law 24/2017 on the issuers of financial instruments and market operations.

The rights of the shareholders of Rompetrol Rafinare are those conferred by Law no. 31/1990 on trading companies, Law no. 24/2017 on the issuers of financial instruments and market operations, Law no. 297/2004 on the capital market, C.N.V.M./F.S.A. regulations and guidelines, Stock Exchange Code and other legal regulations currently in force.

Each share subscribed and paid-up by the shareholders, according to the law, gives them the right to vote within the general meeting of shareholders, the right to appoint and to be appointed by the management bodies, the right to participate in the distribution of profit, in compliance with the provisions of the Articles of Incorporation of the company and the legal dispositions respectively the rights stipulated in the Articles of Incorporation.

The acquisition by a person, directly or indirectly, as provided for by the law, of the ownership right on a share, has an effect the acquisition de jure of the status of shareholder of the company with all their rights and obligations derived therefrom, according to the law and to the Articles of Incorporation.

The shareholder who in certain operation has, either personally or as a representative of another person, an interest contrary to the interest of the Company, will have to refrain from any deliberations on that account.

The General Meeting of the Shareholders of Rompetrol Rafinare S.A., according to its updated Articles of Incorporation:

The General Meeting of Shareholders is summoned by the directors or whenever required, by publishing an announcement in the Romanian Official Gazette, part IV, and in widely distributed local or national publications in the area where the Company is headquartered. The general meetings are summoned by the Board of Directors, and the summoning takes place at least 30 days before the date of holding the meeting. The summons of the general meetings is transmitted simultaneously to B.V.B. and F.S.A. and is available for at least 30 days before the date of holding the meeting on the Company's website, at address: www.rompetrol-rafinare.ro at section Investor Relations.
The general meeting may be summoned at the headquarters of the Company or in other places established by the directors according to the summons. At the general meetings of shareholders, only the shareholders registered in the Register of Company Shareholders, held and issued by Depozitarul Central S.A. Bucharest have the right to participate and vote on the reference date established through the summons of the general meeting. According to the legal provisions, the shareholders may be personally represented (by legal representatives) or by representative, based on a special power of attorney or on a general power of attorney, or by correspondence, based on a voting Form by correspondence, both documents being made available to the shareholders, translated into English language. The shareholders may fill in the Special / General Powers of Attorney or the voting Form by correspondence either in Romanian or in English.
The shareholders may also be represented at the general meeting by persons who do not have the condition of the Company shareholders, except for the directors.

The summons of the general meeting includes information on the availability of the forms for special delegations, voting forms by mail and the deadline to which these documents must be sent / submitted at the Company headquarter, as well as the e-mail address for correspondence.

Each shareholder, regardless of the participation to the share capital, has the right to ask questions referring to the agenda of the general meetings, and the Company may answer the questions asked by the shareholders by posting such answers on the Company website. Questions must be pertinent, be connected to the agenda and not harm the confidentiality and commercial interests of the Company and be in writing, either by mail or courier services, or by electronic means. Furthermore, the summons of the general meeting will comprise the deadline until which shareholders may exercise the above-mentioned rights.

One or several shareholders representing, severally or jointly, at least 5% of the share capital, has/have the right, under the legal conditions, to request to the company Board of Directors: a) to introduce new items in the agenda of the general meeting, provided that each item is accompanied by a justification or by a draft decision proposed to be adopted by the general meeting and b) to submit the draft decisions for the items included or proposed to be included in the agenda of the general meetings.

The summons of the general meeting, the documents and information materials regarding the items on the agenda of the general meeting, the forms for Special powers of attorney, the voting Forms by mail and the draft decisions are made available in Romanian, as well as in English to the Company's shareholders at the headquarters of the Company and can be downloaded from the Company website.
The shareholders can request in writing copies of these documents, by courier or e-mail.

The general meeting is presided by the Chairman of the Board of Directors or by a person appointed by this one, who appoints, among the members of the general meeting members or the company shareholders, one to three secretaries, plus a technical secretary among the employees. They will draft the list of presence of shareholders and verify the following:

- identity documents of the people attending the General Meeting as shareholders or their authorized representatives;
- special or general power of attorney presented by the authorized representatives of the shareholders. The special power of attorney is valid only for the General Meeting of Shareholders for which it has been requested.
- voting forms by mail.

The secretary of the meeting shall also verify the fulfilment of the legal conditions regarding the quorum of presence of shareholders for validating the general meetings.
If the ordinary or extraordinary general meeting cannot take place because the legal conditions of attendance are not met, the meeting that will take place at a second summoning may deliberate upon the matters of the agenda of the first meeting, regardless of the gathered quorum, passing resolutions with the majority of the expressed votes.

After submitting the materials corresponding to the agenda, the shareholders are invited to ask questions and the issues referred to debate are subject to vote by the chairman of the meeting.

The decisions of the general meeting are made by open vote, except for the cases when the general meeting decides for the vote to be secret or if the law requires a secret vote.

Each share entitles to express one vote within the meetings of the general meeting of shareholders of Rompetrol Rafinare. The person representing several shareholders based on special powers of attorney expresses the votes of the represented persons by summing up the total number of votes "for", "against" and "abstention" without compensation (ex. "at point x on the agenda I represent "a" votes "for", "b" votes "against" and "c" abstention "). The votes expressed like this are validated or, as the case may be, invalidated, based on the third copy of the special power of attorney, by the secretary of the general meeting. The votes pertaining to the special power of attorney are exercised only in the manner decided by the shareholder.

The secretary or secretaries of the meeting, based on the freely expressed vote by the shareholders, shall draft the minutes of the general meeting.

Within 24 hours as of the date the general meeting of shareholders took place, the company sends to B.V.B. and C.N.V.M. the current report corresponding to the decision made by the general meeting of shareholders and such is published on the Company website together with the vote results. Moreover, the decisions of the general meeting are published in the Romanian Official Gazette, Part IV.

Resolutions adopted by the general meetings of shareholders during 2017:

The Ordinary General Meeting of Shareholders of Rompetrol Rafinare **dated 13 April 2017** has decided as follows:

- to deny the revocation of Mr. Marius Mitruș from the position of member of the Company Board of Directors starting with the holding date of this Ordinary General Meeting of Shareholders;
- to approve the termination of the mandate of director and chairman of the Board of Directors of Mr. Azamat Zhangulov following his request to waive of these positions starting with 02/02/2017 and to pronounce related to the management of director and chairman of the Board of Directors for the period of the mandate of director and chairman of the Board of Directors during year 2017, respectively 01/01/2017 – 02/01/2017 that should take place with the approval of the Company financial statements for the year 2017;
- to approve the appointment of Mr. Alexey Golovin as permanent member of the Board of Directors, for a mandate that will start with 13 April 2017 and will expire on 30 April 2018 (the expiration date of the mandate of the actual members of the Board of Directors), following the waive of the mandate by Mr. Azamat Zhangulov;
- to approve the appointment of ERNST & YOUNG ASSURANCE SERVICES SRL as financial auditor of the Company, for the financial year 2017, the duration of the audit agreement being one year;
- to approve the date of 3 May 2017, as registration date for the identification of the shareholders affected by the Decisions no. 1/2017 and no. 2/2017 adopted by the Ordinary General Meeting of Shareholders dated 13 April 2017;
- to approve the date of 3 May 2017 as *ex date*, as defined by the provisions of the C.N.V.M. Regulations no. 6/2009;

- to grant power of attorney to Mr. Yedil Utekov, General Manager and member of the Company Board of Directors, having the possibility to grant power to third parties, in order to conclude and/or sign on behalf of the Company and/or of the Shareholders the Decisions no. 1/2017 and no. 2/2017 adopted by this Ordinary General Meeting of Shareholders and in order to carry-out all the legal formalities for registration, publicity, opposability, execution and publication of the Decisions no. 1/2017 and no. 2/2017 adopted.

The ***Ordinary General Meeting of Shareholders of Rompetrol Rafinare*** **dated 27 April 2017** has decided as follows:

- to approve the separate annual financial statements drawn up in accordance with the International Financial Reporting Standards ("IFRS"), as provided for in the Order of the Ministry of Public Finance No. 2844/2016, as subsequently amended and the consolidated financial statements (drawn up in accordance with the International Financial Reporting Standards), audited, for the year 2016, on the basis of the reports of the Board of Directors and the Auditor's financial reports;
- to approve the distribution of the net profit corresponding to the financial year 2016, in compliance with the proposals made available to the shareholders, for the following destinations: *(i)* legal reserve (5% of the result of 2016) amounting to RON 3,500,075 and *(ii)* coverage of the losses reported in the previous years amounting to RON 66,501,433;
- to discharge from administration of all the directors of the Company for the activity developed in the financial year 2016, based on the reports submitted;
- to approve the income and expenses budget and the activity program of the company for the year 2017, including the investment plan for the year 2017;
- to establish the remuneration for the financial year 2017 of the members of the Board of Directors of the company, in order to maintain the same net amount of remuneration for the Board of Directors as the one valid for the year 2016, namely an amount of LEI 9,000 net every month for each director;
- to approve the date of 17 May 2017, as registration date to identify the shareholders affected by the effects of the Decisions no. 2/2015 adopted by the Ordinary General Meeting of Shareholders dated 27 April 2017;
- to approve the date of 16 May 2017, as *ex date*, as defined by the provisions of the C.N.V.M. Regulations no. 6/2009;
- to grant power of attorney to Mr. Yedil Utekov, General Manager and member of the Company Board of Directors, with the possibility to grant power to third parties, in order to conclude and/or to sign on behalf of the Company and/or of the Company shareholders the Decision no. 3/2017 adopted by this Ordinary General Meeting of Shareholders and in order to carry-out all the legal formalities for registration, publicity, opposability, execution and publication of the Decision no. 3/2017 adopted.

The Extraordinary General Meeting of Shareholders of Rompetrol Rafinare **dated 20 December 2017** has decided as follows:

- the Extraordinary General Meeting of Shareholders takes note of the measures adopted by the Board of Directors in order to regulate the net assets related to the share capital;

- the Extraordinary General Meeting of Shareholders ascertains with provisional title, following the implementation of the measures detailed at the previous article as well as of the accounting financial statements, the regulation of the net asset compared to the value of the subscribed share capital, provided that the regulation of the level of the net asset is acknowledged based on the approval of the financial statements audited corresponding to financial year 2017.
- the Extraordinary General Meeting of Shareholders takes note of the Report issued by the Company Executive Management related to the preventive measures related to the occupational health and security norms adopted by Rompetrol Rafinare S.A. in year 2017.
- to approve the date of 01/11/2018 as registration date to identify the shareholders affected by the effects of the Decisions no. 4/2017 and no. 5/ 2017 adopted by the Extraordinary General Meeting of Shareholders dated 20 December 2017;
- to approve the date of 01/10/2018, as ex date, as defined by the provisions of the C.N.V.M. Regulations no. 6/2009;
- to grant power of attorney to Mr. Yedil Utekov, director and General Manager and member of the Company Board of Directors, with the possibility to grant power to third parties, in order to conclude and/or to sign on behalf of the Company and/or of the Company shareholders the Decisions no. 4/2017 and no. 5/2017 adopted by this Extraordinary General Meeting of Shareholders on 12/20/2017 and in order to carry-out all the legal formalities for registration, publicity, opposability, execution and publication of the Decisions no. 4/2017 and no. 5/2017 adopted.

Shareholders' right to dividends

If the General Meeting of Shareholders approves the distribution of dividends from the net profit of the company, all shareholders registered in the Register of shareholders at the time of registration decided by the General Meeting which also approves the amount of dividends received and the time limit within which they shall be paid to the shareholders, shall be entitled to receive dividends.

6.7. Information on the Executive Management of Rompetrol Rafinare

Pursuant to Article 16.1 of the latest Articles of Incorporation of the company - updated on 20 December 2016, the company's executive management which was delegated powers of management by the Board of Directors pursuant to the provisions of Article 143 of Law No 31/1991 on trading companies, has been provided by the General Manager and the Finance Manager.

As at 31 December 2017, the executive managers of the company are:

Mr. Yedil Utekov	– General Manager and member of the Board of Directors
Mr. Vasile-Gabriel Manole	– Finance Manager

6.8. Other elements regarding the Corporate Governance

6.8.1. Transparency, communication and regular and continued reporting

Rompetrol Rafinare grants special importance to the communication and information of shareholders and investors. During year 2017, reports, presentations and press releases related to the financial results, the summoning of the General Meeting of Shareholders and the resolutions adopted by General Meeting of Shareholders, periodical reports (quarterly, semester, annual), significant transactions, etc. were issued. The information included in the current and periodic reports was communicated to the market operator, the Bucharest Stock Exchange, the Financial Supervisory Authority and was made available by posting on the Company's website, www.rompetrol-rafinare.ro at the Investor Relations section.
According to the legal provisions, the separate and consolidated financial statements are audited by the company Ernst & Young Assurance Services S.R.L., independent financial auditor.

6.8.2. Corporate Social Responsibility 2016

COMMUNITY

Rompetrol Rafinare S.A. considers social responsibility as a voluntary contribution to the development of the company, correlated to the values, goals, activities, international laws and the company resources.
As a corporate citizen and worldwide trustworthy partner, we contribute to the development of the countries and communities where we operate by creating jobs, employing local workforce and using local suppliers.
However, our commitment towards social responsibility exceeds the economic aspects and implications of our activities, supplying a framework for all the company management decisions. We adhere to the best practices in the industry and we encourage the participation in social projects focused on the increase of the standards in fields such as business success, environmental protection, health and security, responsibility towards the community, culture, education and leadership.
We work with the stakeholders in all our fields of activity in order to identify the challenges and improve the life quality in communities.
We firmly believe that by strategically investing in local communities we can also influence positively our long-term economic performance.
The ways by which we contribute to develop the communities where we develop our activity include the payment of taxes, local employment, the use and development of local services and suppliers, investment in local infrastructure and social programs, including social investment.

Community engagement
Our involvement is based on community engagement and consultation, in order to identify the projects that can deliver the greatest value to local communities. We support those initiatives that help improve local economic conditions as it is our belief that integrated development (from the economic, environmental, health point of view) offer legitimacy to local communities.

As part of our ongoing business process, we interact and collaborate with the community stakeholders, either at the project level or al the company level, through charitable and community programs. On a project-by-project basis, we proactively engage local communities, government and municipalities to address project-related social, economic or environmental concerns. This type of community engagement is directed by project management and carried out jointly with our clients and partners.
At the company level, we establish relationships with community stakeholders to identify proactively needs that align with KMG International Group's strategic focus areas.

Joint Partnerships

Over the years, Rompetrol Rafinare has developed solid partnerships with representatives of both the academic environment and civil society, which resulted in the implementation of complex sustainable projects and programs.

Universities

Rompetrol Rafinare has developed partnerships with key academic institutions in the oil & gas sector (oil & engineering departments within the University of Oil and Gas of Ploiești, Ovidius University of Constanța, Polytechnic University of Bucharest), offering its support to maintain the academic tradition of Romania in this field. The company developed an internship program for talented students in this field, with more than 1,500 students attending the program during the latest 15 years, out of which more than 400 became employees of the companies within KMG International group.
The program approaches two directions: firstly, to promote the company's culture and development opportunities and secondly, the actual Internship program.

To consolidate the company image among students, we participated in Career Days in Bucharest (at the Academy of Economic Studies), in Constanta (Ovidius University) and at Lazar Edeleanu High School in Navodari, we organized visits to the Refinery and we collaborated with NGOs or relevant student associations. The Human Resources team also delivered personal development workshops, interview simulations and got involved, together with KMG International specialists, student scientific conferences (Ovidius University of Constanta).

The sustainability reports of KMG International Group are found on the web site:

Sustainability report KMGI
http://kmginternational.com/public/documents/articles/sustainability-report-kmg-international-2016_en_348f0cceba21d6d1958a36ff73060c4169493bd3.pdf

Internal Control and risk management systems in relation to the financial reporting procedures

The company has permanently adapted the current internal control mechanism as a set of working procedures and methods in order to prevent the contrary of the economic interests of the Company and of the framework covered by the way they do business, for the identification of deficiencies and

laying down the measures necessary to restore the framework covered. It refers to relationships, the phenomena and financial processes, having as purpose mainly to ensure the proper functioning of economic activity. The aspects of the opportunity, necessity and exigencies of the operations carried out by the company are also analysed. As regards the financial reporting procedures, procedures for reporting internal and external outside the company are developed at the level of the company. The procedures are regularly reviewed by the specialised departments of the company. The financial reporting systems are based on principles, rules and legal provisions in force. Also, as a member of KMG International Group, the company is audited regularly by the KMG International Group's internal audit department. Also, control and internal audit activity is provided by an internal auditor and employee of the Company.

6.9. Reported legal documents

Rompetrol Rafinare reported the legal documents concluded during 2017 by the Company, pursuant to art. 82 of Law 24/2017 and to art. 113 letter G of the C.N.V.M. Regulations no. 1/2006, by the current Reports registered with the Company under no 5147 dated 05/30/2017, no. 5850 dated 06/22/2017, no. 6766 dated 07/19/2017, no. 6784 dated 07/20/2017, no. 9096 dated 09/28/2017, no. 10253 dated 11/01/2017, no. 12334 dated 12/28/2017, no. 828 dated 01/26/2018, no. 923 dated 01/30/2018). The reports were submitted to the market operator (respectively to the Bucharest Stock Exchange), published on the website of FSA (www.asfromania.ro) under section: supervision/Capital market/Electronic reporting as well as on the site www.rompetrol-rafinare.ro under section Investor Relations /Financial Reports, subsection Current Reports.

The major transactions concluded by the Company with individuals acting concertedly or in which these individuals were involved for the reported time frame, were those submitted to the approval of the Extraordinary General Meeting of Shareholders (EGMS) according to the legal provisions and to the dispositions of the Articles of Incorporation.

6.10. Events subsequent to the balance sheet

- Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until April 10, 2018;
- Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until May 28, 2018;
- Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2018;
- Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2018;
- At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates from Vitol SA.

Description of the policies and objectives of the company regarding the risk management

See information in Chapter "*1.1.8. Evaluation work on risk management company*", chapter entitled "Description of company policies and objectives of risk management".

Financial Agenda proposed for year 2018

Financial Calendar	Date
Presentation of the preliminary results, not audited, individual and consolidated, for the year 2017 and for the fourth quarter of 2017	February 15th, 2018
The Ordinary General Meeting of the Shareholders for the approval of annual financial results 2017	April 27/30th, 2018
Publication of the Annual Report 2017 (respectively of the related annual financial results 2017)	April 30th, 2018
Presentation of the results for the first quarter of 2018	May 15th, 2018
Presentation of the results for the first semester and the IInd quarter of 2018	August 14th, 2018
Presentation of the results for the IIIrd quarter and January - September 2018	November 14th, 2018
Telephone conference and/or meetings with investors and financial analysts, as the case may be	upon request

Important Information and news regarding the interests of the shareholders, analysts and investors with regard to the activity of the company are available on www.rompetrol-rafinare.ro the Romanian and English version, section Relationships with Investors.

Contact for the relationship with investors

The annual, semester and quarterly Reports shall be made available to the shareholders, at their request. Requests may also be carried out in electronic format, by e-mail sent to the address: office.rafinare@rompetrol.com.

7. ANNEXES

a) Amendments to the Articles of Incorporation of the company

The Articles of Incorporation may be amended by the General Meeting of Shareholders, in accordance with the provisions of Law no. 31/1990 on trading companies, in conjunction with the provisions of the Articles of Incorporation. The Articles of Incorporation may also be amended by the Company Board of Directors, by delegation of powers by the Meeting of the Shareholders in accordance with the provisions of Art. 114 of Law no. 31/1990 on trading companies.

In 2017, no amendment or update of the Articles of Incorporation occurred. The Articles of Incorporation valid on the issue date of this report was updated on 20 December 2016 and may be consulted on the web page of the Company, section Investor Relations, subsection .

b) major contracts concluded by the company in the year for which the reporting is made.

Important contracts in which Rompetrol Rafinare is the supplier:

- Contract no. RR 1/28.01.2013, concluded with Uzina Termoelectrică Midia S.A., automatically extended in 2018, having as object the sale of utilities – refinery combustible gases;
- Contract RR 1/03.01.2017 concluded with Rompetrol Downstream S.R.L., having as object the sale of oild products for 2017;
- Contract 2017 (RRC 1/30.12.2016), concluded with KazMunayGas Trading AG, having as object the sale of oild products on export for 2017;
- Contract no 3/04.01.2016 with automatic renewal, concluded with Rompetrol Gas S.R.L., having as object the sale of liquified oil gas for 2017;
- AA 1/07.12.2016 la Ctr RR 1/14.12.2015, concluded with Air BP Sales Romania, having as object the sale of reactor oil Jet A1 for 2017;
- Contract RR 2/03.01.2017 concluded with Rompetrol Moldova, having as object the sale of oild products for 2017;

Important contracts in which Rompetrol Rafinare is the beneficiary:

- On Contract no RR5/15.12.2016 valid for 15.12.2016 - 30.06.2017, concluded with ENEL ENERGIE MUNTENIA S.A., on purchasing electric energy for the operational units at Năvodari and Vega, two addenda were signed: Addendum no 1/01.07.2017 regulatig the invoicing/invoice maturity procedure and extension of the validity until 30.06.2018 and Addednum no 2/02.12.2017 having as object the purchase price, according to Addendum 4.

- On Contract no RR 1/31.12.2015, concluded with OMV PETROM GAS SRL., havig as object the purchase of natural gas mix for the operational units Năvodari and Vega, three addedna were signed: Addendum no 3/21.12.2016, having as object the extension of validity until 30.09.2017, Addendum no 4/27.06.2017, having as object the extension of validity until 31.12.2017 and Addendum no 5/28.12.2017, having as object the extension of validity until 30.09.2018 and purchase price modification.
- On Contract no RR 1/29.12.2014, concluded with Uzina Termoelectrică Midia S.A. for purchasing demineralized water for the operational unit Năvodari, Addednum no 3/04.12.2017 was signed, having as object the extension of validity until 31.12.2018.
- On Contract no RR 2/29.12.2014, concluded with Uzina Termoelectrică Midia S.A. for purchasing thermal energy for the operational unit Năvodari, Addednum no 3/04.12.2017 was signed, having as object the update on the contracted quantity of reference prices in the price formula.
- Contract KMGT AG - CRUDE OIL TERM SALES CONTRACT - 05550/01.12.2016 _ RR 4 /30.12.2016 concluded with KazMunayGas Trading A.G., for purchasing crude oil for 2017;
- Contract KMGT AG – FRAME CRUDE OIL SALES CONTRACT - 05288/13.10.2016 _ RR 2 /17.10.2016 concluded with KazMunayGas Trading A.G., for purchasing crude oil for 2017;
- Contract KMGT AG – FRAME CRUDE OIL SALES CONTRACT - 05378/25.10.2016 _ RR 6 /28.10.2016 concluded with KazMunayGas Trading A.G., for purchasing crude oil for 2017;
- Contract GOS_03428/22.12.2014 (RR3/29.12.2014) - ADD No. 49, concluded with KazMunayGas Trading A.G. (term extension) for purchasing Diesel fuel for processing for 2017;
- Contract BGNAC120-01-2692/23.12.2016 _ RR05_05.01.2017 - concluded with BGN International DMCC for purchasing ethylene for 2017;
- Contract 05547-Rafinare-2017 (RR5_30.12.2016) – supplier Baltic Fuels, concluded with KazMunayGas Trading AG for purchasing bio-Diesel for 2017;
- Contract RR5_16.01.2017) – supplier EXPUR S.A SLOBOZIA for purchasing bio-Diesel for 2017;
- Contract RR2_09.01.2017) – supplier PRIOBIOCOMBUSTIBIL SRL for purchasing bio-Diesel for 2017;
- Contract RR2_03.05.2017) – supplier AGRANA STARKE for purchasing bio-ethanol for 2017.
- Contract no RR 4/31.12.2012 concluded with Rominserv SRL for executing the enterprise works (works afferent to the investment projects, overhauling works) for Refineries Petromidia and Vega, extended by Addendum no 1 for 2014, Addednum no 2 for 2015, Addendum no 3 for 2016 and Addendum no 4 for 2017;
- Contract no RR 2/21.09.2017 concluded with CPST ADVISORY having as object specialty service supply such as managerial procedures, know-how, good practices, solutions, training and consultancy within project Delfin regarding Project Management (396,000 Euro);
- Contract no RR 3/21.09.2017 concluded with CPST ADVISORY having as object specialty service supply such as managerial procedures, know-how, good practices, solutions, training and consultancy within project Delfin regarding Organizational Efficiency (245,000 Euro);

- Contract no RR 4/09.08.2017 concluded with Romespectra Impex having as object the purchasing of automatic chromatograph gas equipment for the laboratory (67,250 Euro)
- Contract no RR 1/18.08.2017 concluded with Tractabel Engineering having as object specialty service supply such work documentation activity for "Study of underground sewage networks at Midia and Vega" (72,500 Euro)
- Contract no RR 5/29.12.2017, concluded with ECOMASTER SERVICII ECOLOGICE S.R.L. for service supply such as flushing/cleaning tank C100 and valorification/elimination of dangerous waste (92,000 USD);
- Contract no RR 2/17.07.2017 concluded with Philro Industrial having as object the delivery and mounting of the weight indicators Rampa GPL (73,000 USD);
- Contract no RR 6272/07.07.2017 concluded with Arkema Industrial having as object service supply such as desulphurization (53,000 Euro).

Important contracts where Rompetrol Rafinare is the company receiving the loan:

- Addendum no. 2 of 13.03.2017 to The overdraft credit facility contract of 27.04.2015 concluded between the Company, Rompetrol Downstream SRL, KMG Rompetrol SRL, KMG International NV and Unicredit Bank SA, with the object being the amount of USD 25,000,000, in the sense of extending the credit maturity until 20.04.2018.

- Addendum no. 2 of 19.04.2017 to The overdraft credit facility contract no 15731 of 23.04.2015 concluded between the Company, Rompetrol Downstream SRL, KMG Rompetrol SRL, KMG International NV and ING Bank NV Amsterdam – Bucharest Branch, with the object being the amount of USD 25,000,000, in the sense of extending the credit maturity until 23.04.2018.

- Addendum no. 2 of 21.04.2017 to The overdraft credit facility contract of 18.05.2015 concluded between the Company, Rompetrol Downstream SRL, KMG Rompetrol SRL, KMG International NV and Banca Comerciala Romana SA, with the object being the amount of USD 25,000,000, in the sense of extending the credit maturity until 23.04.2018.

- Addendum no 21 of 04.07.2017 to the credit facility contract no 368/23rd of July 2007 between the Company, Rompetrol Downstream SRL and Bancpost S.A., with the object of EUR 27,961,890, in the sense of extending the credit maturity until 31.07.2018.

- Addendum no 40 of 04.07.2017 to the revolving credit facility contract for working capital no 490/17th of March 2008 between the Company, Rompetrol Downstream SRL and Bancpost S.A., with the object of EUR 30,000,000, in the sense of extending the credit maturity until 31.07.2018.

- Addendum no 11 of 22.12.2017 to the Loan Contract no 448/20.09.2010 between the Company and KMG International N.V., with the object of USD 250,000,000, in the sense of extending the contract maturity with 12 months, starting with 31.12.2017.

- Addendum no 4 of 22.12.2017 to the Loan Contract no RR2 of 24.11.2014 concluded between the Company and Rompetrol Financial Group S.R.L., with the object of USD 29,215,000, in the sense of extending the contract maturity until 31.12.2018.

- Loan Agreement no. RR3 of 20.11.2017 concluded between the Company and KMG International N.V., with the object of conversing the debt of the Company in favor of KMG International N.V., into a long-term loan, which debt was previously acquired by KMG International N.V. from Rompetrol Petrochemicals, by assigning the receivables amonting to RON 285.493.354,14 that Rompetrol Petrochemicals has against the Company.

c) The resignation/dismissal of members of the Directors, Executive Management, Auditors.

During the reported year, the request submitted by Mr. Azamat Zhangulov occurred among the members of the board of directors, namely to waive of the position of director and chairman of the Board of Directors starting with 2 February 2017.

During the analyzed year, no resignations / dismissals of the members of the Executive Management occurred. No resignations / dismissals of the financial auditor of the Company occurred.

d) The list of the subsidiaries of the Company and of the Companies controlled by the Company.

At the end of the year 2017, the company had two work points, namely:

i) Work point located in Năvodari, 1 – 283 Năvodari Blvd., Constanţa County.
ii) Work point located in Ploieşti, 146 Văleni Str., Prahova county, which carry out their activities in the space which is owned by the Company, called " Rompetrol Rafinare - work point Vega Refinery ".

At present, Rompetrol Rafinare S.A. holds the control position in the following companies:

Directly:

- Rompetrol Logistics S.R.L;
- Rompetrol Petrochemicals S.R.L.;
- ROM OIL S.A.;
- Rompetrol Quality Control S.R.L.
- Rompetrol Downstream S.R.L.

In an indirect way:

- Global Security Sistem S.A.;
- Rompetrol Gas S.R.L.

e) The list of persons affiliated to the company[17]

Rompetrol Rafinare S.A. makes part of the KMG International Group.[18]
The Group is registered with the Financial Supervisory Authority and is composed of the composed of the following companies as at 12/31/2017:

- KMG International N.V.[19]
- Oilfield Exploration Business Solutions S.A.
- Rompetrol Downstream S.R.L.
- Rompetrol Well Services S.A.
- Palplast S.A.
- Rompetrol Logistics S.R.L.
- Rominserv S.R.L.
- Rom Oil S.A.
- Global Security Sistem S.A.
- Uzina Termoelectrică Midia S.A.
- Rompetrol Petrochemicals S.R.L.
- Rompetrol Quality Control S.R.L.
- Rompetrol Financial Group S.R.L.
- Rompetrol Gas S.R.L.
- Midia Marine Terminal S.R.L.
- KMG Rompetrol S.R.L.
- Byron Shipping S.R.L.
- EPPLN SAS (Entrepot Petrolier de Port La Nouvelle)
- Rominserv Valves Iaifo S.R.L.
- Byron Shipping LTD
- Întreprinderea Mixta "Rompetrol Moldova" S.A.
- Rompetrol Georgia LTD
- Rompetrol France SAS
- Dyneff SAS
- Dyneff Espagne SL
- DYNEFF Trading SL[20]
- Dyneff Gas Stations Network SL (DYNEFF CATALOGNE SLU)
- TMP SAS (Terminal Midi Pyrenees)
- DPPLN SAS (Depot Petrolier de Port-la Nouvelle)
- Rompetrol Ukraine LTD
- AGAT LTD.

[17] *At this point there have been listed all of the companies in the KMG International Group*
[18] *As Rompetrol Group until March 2014*
[19] *As The Rompetrol Group N.V. until March 2014*
[20] *Until 2016 the name was BIONEFF SL*

- KazMunayGas-Engineering LLP[21]
- TRG PETROL TICARET ANONIM ŞIRKETI
- Rompetrol Bulgaria AD
- KazMunayGaz Trading A.G.
- Rompetrol Energy S.A.
- Rompetrol Albania Downstream Sh.A - pending liquidation
- Rompetrol Albania Wholesale Sh.A - pending liquidation
- Rompetrol Albania ShA - pending liquidation
- Rompetrol Distribution Albania Sh.A. - pending liquidation
- KMG Rompetrol Services Center SRL[22]
- KazMunayGas Engineering B.V.
- KazMunayGas Trading SingaporePTE. LTD
- Oman J.V.[23]
- Rompetrol Drilling S.R.L.
- KMG ROMPETROL DEVELOPMENT S.R.L.
- Bio Advanced Energy SAS – headquartered in Montpellier, France
- Bio Advanced Energy Prod SAS – headquartered in Labarthe Inard, France
- DPFOS S.A.
- SPR SA
- Boissonnade Combustibles SAS[24]

THE BOARD OF DIRECTORS:

Chairman
Cătălin Dumitru

Member and General Manager
Yedil Utekov

Interim Member
Alexey Golovin

Member
Nicoleta-Viorica Soisun [25]

Prepared by
Financial Manger
Vasile-Gabriel Manole

Member
Mihai-Liviu Mihalache

Note: English translation is for information purposes only. Romanian language text is the official text for submission.

[21] *With the old designation of Rominserv Kazahstan LLC*
[22] *With the former assignation of ROMPETROL EXPLORATION & PRODUCTION SRL*
[23] *With the former assignation of Benon Rompetrol*
[24] *Acquired in July 2017*
[25] *On the signing date of the present report she is member of the Board of Directors of Rompetrol Rafinare S.A.. according to the Decision no. 1/2018 adopted by the Ordinary General Meeting dated 15 January 2018.*

rompetrol | KazMunayGas Group Member

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Appendix

CORPORATE GOVERNANCE STATEMENT
As of December 31th, 2017[1]

Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
A.1. All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.		Partial compliance	The terms of reference / Board's responsibilities and key functions of the company management are also included in the company's Articles of Association. This requirement will be analyzed in the Board meetings.
A.2. Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting nonquorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.		Partial compliance	The Articles of Association do not contain any provisions concerning the management of conflicts of interest. However, the recommendation of the Corporate Governance Code is complied with. The members of the Board of Directors have, by law, a duty of care and a duty of loyalty to the Company, stated not only in the Company's Articles of Association, but also in other internal regulations.
A.3. The Board of Directors should have at least five members.	YES		
A.4. The majority of the members of the Board should be non-executive. Not less than two non-executive members of the Board of Directors should be independent, in the case of Premium Tier Companies. Each member of the Board should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.	YES		Currently, there is an independent director.

[1] *The statement summarises the main highlights of the Code's provisions. For the full text of the Code please refer to Bucharest Stock Exchange website www.bvb.ro*

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Fiscal Identification No: RO1860712 UniCredit Tiriac Bank – Constanta

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and nonexecutive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES		
A.6. Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.		NOT	The requirement will be implemented in 2018. The members of the Board of Directors have, by law, a duty of care and a duty of loyalty to the Company.
A.7. The company should appoint a Board secretary responsible for supporting the work of the Board.	YES		
A.8. The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.		NOT	The company will develop a policy / guidance concerning the Board's evaluation and including the purpose, criteria and frequency of the evaluation process.
A.9. The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	YES		
A.10. The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors.	YES		The requirement is presented in the Annual Report of the Board of Directors for 2017 in the chapter named "*Governance Corporative*"

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
A.11. The Board of Premium Tier companies should set up a nomination committee formed of nonexecutives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.		N/A	The company is included in the Standard Category.
B.1. The Board should set up an audit committee, and at least one member should be an independent nonexecutive. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.		NOT	In 2017, the company does not have an audit committee. Considering that the organization at KMG International Group level also implies the existence of operational support functions with various responsibilities, the creation of consulting committees (such as audit, appointment, remuneration committees etc) at entity level was not necessary. The relation between the company and the functions at KMG International Group level is regulated by a service agreement. The requirement will be implemented in 2018
B.2. The audit committee should be chaired by an independent nonexecutive member.		NOT	See the explanation at B.1.
B.3. Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.		NOT	See the explanation at B.1.
B.4. The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.		NOT	See the explanation at B.1.
B.5. The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.		NOT	See the explanation at B.1.
B.6. The audit committee should evaluate the efficiency of the internal control system and risk management system.		NOT	See the explanation at B.1.

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
B.7. The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.		NOT	See the explanation at B.1.
B.8. Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by periodical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.		NOT	See the explanation at B.1.
B.9. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	YES		
B.10. The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the audit committee.		NOT	This requirement will be analyzed by the Board in 2018.
B.11. The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	YES		
B.12. To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the general manager.		Partial compliance	Because in 2017, the company does not have an audit committee, the internal auditor reported directly to the Board of Directors and General Manager.
C.1. The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. Any essential change of the remuneration policy should bepublished on the corporate website in a timely fashion.		NOT	The requirement will be implemented.

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
D.1. The company should have an Investor Relations function - indicated, byperson (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:		Partial compliance	
• **D.1.1.** Principal corporate regulations: the articles of association, general shareholders' meeting procedures;	YES		
• **D.1.2.** Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and nonexecutive Board positions in companies and not-for-profit institutions;	YES		
• **D.1.3.** Current reports and periodic reports (quarterly, semi-annual and annual reports);	YES		
• **D.1.4.** Information related to general meetings of shareholders;	YES		
• **D.1.5.** Information on corporate events;	YES		
• **D.1.6.** The name and contact data of a person who should be able to provide knowledgeable information on request;	YES		
• **D.1.7.** Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semiannual, annual), auditor reports and annual reports.	YES		
D.2. A company should have an annual cash distribution or dividend policy. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES		

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
D.3. A company should have adopted a policy with respect to forecasts, whether they are distributed or not. The forecast policy should be published on the corporate website.	YES		
D.4. The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	YES		
D.5. The external auditors should attend the shareholders' meetings when their reports are presented there.	YES	-	
D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES		
D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		NOT	
D.8. The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	YES		
D.9. A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.		Partial Compliance	The regular reports prepared by the company to disclose its financial items are complete, highly transparent and relevant in terms of information necessary for making investment decisions. The organization of such events will be established depending on the requests from investors.

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Governance Corporative Code	Compliance	Not compliance or partial compliance	Reason for the non-compliance
D.10. If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	YES		

Chairman of the Board of Directors

Cătălin DUMITRU

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UniCredit Tiriac Bank – Constanta

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AFFIDAVIT

The undersigned, Cătălin DUMITRU, in capacity of Chairman of the Board of Directors, Yedil UTEKOV, in capacity of General Manager and Vasile-Gabriel MANOLE, in capacity of Finance Manager of Rompetrol Rafinare S.A. (hereinafter referred to as the „Company"), in consideration of the provisions of art. 63 of Law no. 24/2017 regarding issuers of financial instruments and market operations and art. 112^1 of the National Securities Commission Regulation no. 1/2006 regarding issuers and securities related operations,

hereby declare that, to the best of our knowledge, the annual (individual and consolidated) financial-accounting statements on December 31, 2017, prepared in compliance with the applicable accounting standards offer an accurate and true image of the assets, liabilities, financial standing, profit and loss account of the Company and, respectively, of its subsidiaries included in the process of consolidation of financial statements, and the Reports of the Board of Directors (on the individual financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"), as laid down by the Order of the Ministry of Public Finance no. 2844/2016 with all subsequent and clarifications and on the consolidated financial statements prepared in accordance with IFRS) comprise a correct analysis of the Company's development and performance, as well as a description of the main risks and uncertainties specific to the performed activity.

Chairman of the Board of Directors

Cătălin DUMITRU

General Manager

Yedil UTEKOV

Finance Manager

Vasile-Gabriel MANOLE

ROMPETROL RAFINARE S.A.

INDIVIDUAL FINANCIAL STATEMENTS

Prepared in compliance with
Order of the Minister of Public Finance no. 2844/2016
For approval of the accounting regulations in compliance with
the International Financial Reporting Standards

31 DECEMBER 2017

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	Notes	December 31, 2017	December 31, 2016
Intangible assets	3	14,618,988	16,724,850
Goodwill	4	152,720	152,720
Property, plant and equipment	5	3,680,205,350	3,018,053,823
Financial assets	6	1,629,020,055	1,629,020,055
Deferred tax asset	20	156,961,477	271,373,514
Total non current assets		**5,480,958,590**	**4,935,324,962**
Inventories, net	7	1,014,258,927	816,627,179
Receivables and prepayments, net	8	1,577,627,271	1,018,626,207
Derivative Financial Instruments	27	-	22,980
Cash and cash equivalents	9	22,863,280	45,891,549
Total current assets		**2,614,749,478**	**1,881,167,915**
TOTAL ASSETS		**8,095,708,068**	**6,816,492,877**
Subscribed share capital	10	4,410,920,573	4,410,920,573
Share premium	10	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	10	600,663,192	-
Other reserves	10	3,424,144,892	3,169,670,514
Accumulated losses		(6,507,244,042)	(6,556,328,713)
Current year result		418,336,728	70,001,508
Total equity		**2,579,458,450**	**1,326,900,989**
Hybrid loan - long-term portion	10	57,155,251	-
Long-term borrowings from banks	13	-	281,763,783
Provisions	14	327,130,219	302,311,412
Total non-current liabilities		**384,285,470**	**584,075,195**
Trade and other payables	11	3,981,167,078	3,750,363,002
Derivatives	27	515,760	-
Short-term borrowings from affiliates	12	683,141,317	1,065,970,431
Short-term borrowings from banks	12	467,139,993	89,183,260
Total current liabilities		**5,131,964,148**	**4,905,516,693**
TOTAL LIABILITIES AND EQUITY		**8,095,708,068**	**6,816,492,877**

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

CATALIN DUMITRU
President of the Board of Directors

VASILE-GABRIEL MANOLE
Chief Financial Officer

YEDIL UTEKOV
Chief Executive Officer

Prepared by (Chief Accountant)
Alexandru Cornel Anton

	Notes	2017	2016
Net revenues	15	11,192,755,314	8,774,321,849
Cost of sales	16	(10,628,344,179)	(8,272,314,522)
Gross profit		**564,411,135**	**502,007,327**
Selling, general and administrative expenses	17	(277,870,892)	(215,517,308)
Other operating expenses	18	(74,414,144)	(78,217,945)
Other operating income		11,235,130	67,641,004
Operating profit/ (loss)		**223,361,229**	**275,913,078**
Financial expenses	19	(159,732,555)	(130,189,378)
Financial revenues	19	46,439,668	21,170,401
Net foreign exchange gains / (losses)	19	308,268,386	(140,228,024)
Profit before income tax		**418,336,728**	**26,666,077**
Deferred tax	20	-	43,335,431
Net Profit		**418,336,728**	**70,001,508**
Earnings per share *(bani/share)*	23	0.95	0.16

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Chief Executive Officer

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Alexandru Cornel Anton

	2017	2016
Net Profit / (Loss)	**418,336,728**	**70,001,508**
Other comprehensive income		
Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):		
Gains / (losses) from derivatives	(538,518)	22,758
Total comprehensive income to be reclassified income statement in subsequent periods (net of tax):	**(538,518)**	**22,758**
Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):		
Actuarial gain / (losses) relating to retirement benefits	(1,078,366)	(6,448,613)
Revaluation of buildings category in property plant and equipment	715,075,229	-
Deferred tax on the revaluation reserve recognized on equity	(114,412,037)	-
Total other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):	**599,584,825**	**(6,448,613)**
Total other comprehensive income for the year, net of tax	**599,046,307**	**(6,425,855)**
Total comprehensive income for the year, net of tax	**1,017,383,035**	**63,575,653**

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Chief Executive Officer

Prepared by (Chief Accountant)
Alexandru Cornel Anton

	December 31, 2017	December 31, 2016
Net result before income tax	**418,336,728**	**26,666,077**
Adjustments for:		
Depreciation and amortization	272,563,017	271,859,735
Provisions for receivables and inventories (incl write-off)	4,901,472	(20,097,808)
(Gain)/Loss on sale or disposal of property, plant and equipment	19,601,302	-
Provision for environmental liabilities and litigations	22,709,331	52,353,942
Restructuring and retirement benefit provisions	(1,031,110)	2,674,777
Expenses with penalties	588,140	143,494
Interest expenses	159,445,993	130,189,378
Interest income	(44,795,263)	(18,509,735)
Income from dividends	(1,578,251)	(2,121,569)
Losses/gains from derivatives	223	552
Unrealized foreign exchange (gain)/loss from restatement and monetary items	(220,697,048)	38,911,265
Cash generated from operations before working capital changes	**630,044,535**	**482,070,108**
Net working capital changes in:		
Receivables and prepayments	(478,890,542)	65,052,137
Inventories	(200,731,671)	(276,600,089)
Trade and other payables, including payables variation for capital expenditures	607,326,327	66,715,808
Change in working capital	**(72,295,886)**	**(144,832,144)**
Cash payments for derivatives, net	920,497	(187,054)
Net cash provided by/(used in) operating activities	**558,669,146**	**337,050,910**
Cash flows from investing activities		
Purchase of property, plant and equipment	(236,578,685)	(147,202,051)
Purchase of intangible assets	(556,070)	(6,565,876)
Dividends received	1,578,251	2,121,569
Net cash used in investing activities	**(235,556,504)**	**(151,646,358)**
Cash flows from financing activities		
Cash pooling	(77,424,484)	204,510,410
Short - term loans/ (repaid to) received from banks, net	126,828,980	(66,532,789)
Long - term loans received from banks	-	241,177,578
Long - term loans repaid to banks	-	(266,944,697)
Short - term loans (repaid to)/ received from shareholders and related parties	(236,099,414)	(7,258,932)
Interest and bank charges paid, net	(159,445,993)	(251,238,442)
Net cash from financing activities	**(346,140,911)**	**(146,286,872)**
Increase / (Decrease) in cash and cash equivalents	**(23,028,269)**	**39,117,680**
Cash and cash equivalents at the beginning of period	**45,891,549**	**6,773,869**
Cash and cash equivalents at the end of the period	**22,863,280**	**45,891,549**

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Alexandru Cornel Anton

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1st of January 2016	**4,410,920,573**	**232,637,107**	**(6,552,828,638)**	**-**	**-**	**3,172,596,294**	**1,263,325,336**
Net profit for year 2016	-	-	**70,001,508**	-	-	-	**70,001,508**
Actuarial gain/losses related to retirement benefits	-	-	-	-	-	(6,448,613)	(6,448,613)
Gains/losses related to derivative financial instruments	-	-	-	-	-	22,758	22,758
Total other comprehensive income for 2016	**-**	**-**	**-**	**-**	**-**	**(6,425,855)**	**(6,425,855)**
Total comprehensive income for 2016	**-**	**-**	**70,001,508**	**-**	**-**	**(6,425,855)**	**63,575,653**
Transfer to legal reserves	-	-	(3,500,075)	-	-	3,500,075	**-**
1st of January 2017	**4,410,920,573**	**232,637,107**	**(6,486,327,205)**	**-**	**-**	**3,169,670,514**	**1,326,900,989**
Net profit for year 2017	-	-	**418,336,728**	-	-	-	**418,336,728**
Reserves - Hybrid loan	-	-	-	-	-	235,174,426	**235,174,426**
Revaluation reserves	-	-	-	715,075,229	-	-	715,075,229
Deferred tax on the revaluation reserve	-				(114,412,037)		(114,412,037)
Actuarial gain/losses related to retirement benefits	-	-	-	-	-	(1,078,366)	(1,078,366)
Gains/losses related to derivative financial instruments	-	-	-	-	-	(538,518)	(538,518)
Total other comprehensive income for 2017	**-**	**-**	**-**	**715,075,229**	**(114,412,037)**	**(1,616,884)**	**599,046,307**
Total comprehensive income for 2017	**-**	**-**	**418,336,728**	**715,075,229**	**(114,412,037)**	**(1,616,884)**	**1,017,383,035**
Transfer to legal reserves	-	-	(20,916,836)	-	-	20,916,836	**-**
31st of December 2017	**4,410,920,573**	**232,637,107**	**(6,088,907,313)**	**715,075,229**	**(114,412,037)**	**3,424,144,892**	**2,579,458,450**

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

DUMITRU CATALIN
President of the Board of Directors

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Prepared by (Chief Accountant)
Alexandru Cornel Anton

1. GENERAL

Rompetrol Rafinare S.A. (hereinafter referred to as "the Company" is a company incorporated under Romanian laws. The Company operates two refineries Petromidia and Vega and also the petrochemical sector. Petromidia Refinery is the one with the highest capacity (of 5 million tons/annum, nameplate capacity) and the only Romanian refinery at the Romanian Black Sea shore, which processes exclusively imported crude oil and produces E.U. standard motor fuels, other petroleum products and certain petrochemicals. Petromidia refinery was designed and built during 1975 and 1977 and was further upgraded in the early '90s and between 2005 - 2012. Vega refinery was built in 1905 and upgraded in the following decades.

Rompetrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 31 December 2017 is 1,157, respectively 1,077 as at 31 December 2016.

The registered address of Rompetrol Rafinare S.A. is 215 Navodari Blvd., Constanta, Romania.

Rompetrol Rafinare S.A. is a joint stock company listed in the Bucharest Stock Exchange since 2004.

The Company is a part of the KMG International N.V The consolidated financial statements are prepared at the level of the parent company KMG International N.V., with the head office located at World Trade Center, Strawinskylaan 807, Tower A, 8th Floor, 1077 XX, Amsterdam, The Netherlands. These annual financial statements are public.

The ultimate parent of the KMG International N.V. is the company "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan and owned by the Kazakh State.

The company also prepares consolidated financial statements that have a public character and are available on the website of the company, www.rompetrol.com, at the section Relation with Investors, subsection Rompetrol Refining.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

Effective as of 31 December 2012, the standalone financial statements of the Company are prepared in accordance with the Order of the Minister of Public Finance no. 1286/2012 subsequent amended by Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting regulations in compliance with the International Financial Reporting Standards applicable to the companies whose real estate values are accepted for transaction on a regulated market. These stipulations are compliant with the requirements of the International Financial Reporting Standards as approved by the European Union, except the regulations of IAS 21, *the Effects of the exchange rate variation* with regards to the functional currency.

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

The standalone financial statements were prepared based on the historical cost, except for financial instruments and buildings category which are presented at the fair value in the account of profit and loss, and in the statement of other comprehensive income, respectively.

The standalone financial statements are prepared in RON and all the values are rounded up to the closest amount in lei, if not otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) The going concern

The financial statements of the Company are prepared on a going concern basis. As at 31 December 2017 and 31 December 2016, the Company reported net assets amounted to RON 2,579 million and RON 1,327 million respectively. For the exercise ended as at 31 December 2017 and 31 December 2016, the Company reported a profit of RON 418.3 million, and of RON 70 million respectively. The accumulated losses incurred in the past are due to the fact that the Company has been affected by the specific of the refining activity, characterized by a significant volatility and lower refinery margins in the past years, but considering that the massive investment trend of the last period combined with an improvement in market conditions the company has achieved and is aiming for future positive financial results which will decrease the cumulated loss recorded so far.

The strategy for the following years is a mix of projects of optimization of production and energy costs, optimum utilization of refining capacity and improvement of production yields. In order to improve the financial performance, the following measures have been taken:

- Reducing the refinery costs for the purpose of rendering the processes efficient and increasing profitability.
- Improvement of the product mix in order to increase the share of higher margin products

The management claims that these developments will lead to an improvement of the Company's capacity to financially support its ongoing operations.

At the end of 2015 the company's net assets decreased to less than half the value of the subscribed share capital and the Company's management intends to regulate this situation of the ratio between the net assets of the Company and its share capital, within the term provided by law, according to article 153.24 of Law no. 31/1990 regarding the trade companies, as amended and in accordance with statutory decisions.

Therefore, the Board of Directors met in session on 10 November 2016 summon General Meeting of Shareholders, held on 19 December 2016. The agenda of the meeting, among other topics discussed, established as a point - continuing the company's activity in accordance with art. 153.24 of Law. no 31/1990 regarding the trade companies, republished, and that will take the necessary steps to resolve the situation of the net asset. The General Meeting of Shareholders held on 19 December 2016 decided continuing the company's activity and decided to set 31 December 2017 as date for resolving the situation mentioned above. During the year 2017, various analyzes were developed to identify the best method of remediating the net asset.

The following events contributed in 2017 to the remedy of the company's net asset deficit:

1. In November 2017 the company signed with KMG International NV a hybrid loan agreement in total amount of USD 72.2 million loan as a result of conversion of a commercial debt in front of KMG International NV (approximately RON 285.5 million as a result of assignment by Rompetrol Petrochemicals SRL in favor of KMG International NV of a commercial receivable held over the Company). The loan is unsecured, repayable after 51 years, subordinated to any present and future liability of the company and the interest it is computed and becomes payable if certain legal conditions and of profitability are met. In accounting terms the present loan was treated as capital item and booked in the Company's accounting record in the "Other reserves" account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Starting December 31,2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, in respect of buildings category, from cost model to the revalued one. The change from cost to revaluation model will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A net gain from the revaluation of the Company's buildings category of RON 695.5 million in 2017 was booked in company's records, being recognized in Revaluation reserves account a gain from revaluation of RON 715.08 million and a loss as a result of reevaluation in amount of RON 19.6 million recognized in expenses.

Additionally to the above adopted measurements mentioned, which have a final effect in the remedy of the Company's net asset level, the net profit realized by Rompetrol Rafinare S.A. in 2017 in amount of RON 418.34 million had a significant contribution to the increase of the Company's net asset.

Considering the Company's plans for 2018, and other aspects above mentioned, it is considered that the preparation of the financial statements is based on the ongoing activity principle.

c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Company has no impact from application of this amendment.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Company has no impact from application of this amendment.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. None of these had a significant effect on the Company's financial statements:

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation of buildings category in property, plant and equipment

Rompetrol Rafinare S.A. re-assessed its accounting for property, plant and equipment with respect to measurement of a certain class of property, plant and equipment after initial recognition. The Company had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

Starting December 31, 2017, the Company elected to change the method of accounting for buildings category classified as property, plant and equipment, because the Company believes that the revaluation model provides more relevant information to the users of its financial statements. The change from cost to revaluation method will provide a more transparent and up-to-date picture of the value of the Company's buildings, reflecting the economic reality upon which it operates. Historical cost was significantly below fair value due to changes in the real estate market in the period since the Company first adopted IFRS (15 years ago).

The Company applied the revaluation model prospectively.
After initial recognition, buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to note 5.

d) Standards issued but not yet effective and are not early adopted

The Company has not early adopted the following standards/interpretations:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The Company adopts the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9.
  This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 as well as from further refinements of the impairment model which is currently being tested at the date of these financials. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Company will implement changes in classification of certain financial instruments.

  a) Classification and measurement
  The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

  b) Hedge accounting
  The Company determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Company has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Company excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12 month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined after assessment of major categories of trade receivables that the loss allowance will increase by USD 95k.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company, but there is no significant effect identified until the reporting date.

  IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

  The Company is involved in refining and petrochemicals, wholesale and retail of petroleum products and related services (oilfield, logistics, maintenance, quality control).

  The Company analyzed the main revenue streams which are comprised sales of crude oil, petroleum products and petrochemicals, under the main business segments: Downstream (retail and wholesale) and refinery, by applying the ''five steps'' model prescribed by IFRS 15:

  1. Identify the contract(s) with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue when (or as) the entity satisfies a performance obligation

  Based on the results of review of contractual terms of principal types of contracts pertaining to each material revenue streams, the Company concluded that IFRS 15 will not have a significant impact compared with current revenue recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- *The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**,* which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. None of these had a significant effect on the Company's financial statements:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no significant impact from application of this standard.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. None of these had a significant effect on the Company's financial statements:

  - ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

    • IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

    The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment require entities to use audited actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

e) Significant professional judgements, estimates and assumptions

The preparation of the financial statements requires that the management should issue professional judgments, estimates and assumptions that affect the reported amounts of revenues and expenses, of assets and liabilities and the disclosure of contingent liabilities at the reporting date. The estimates and associated assumptions are based on the previous experience and on other factors considered relevant. However, uncertainty about these forecasts and estimates could result in adjusting the accounting value of the assets and liabilities in the future periods.

The estimates and assumptions that are the basis of the accounting judgements are constantly reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period or in the period of the revision and the future periods if the revision affects both current and the future periods.

The matters presented below are considered to be the most important in understanding the professional judgments that affect the preparation of these financial statements and the uncertainties that could affect the result of the operations, the financial position and the treasury flows.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that can lead to material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Impairment of non-financial assets***

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the carrying amounts for major property, plant and equipment are tested for impairment.

If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is higher of fair value less costs to sell, and value in use determined as the amount of estimated discounted future cash flows. Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand and product margins. Other factors that can lead to changes in estimates include restructuring plans and legislations changes. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

- ***Provision for environmental liability***

The Company is involved in refining and petrochemicals. Environmental damage caused by such activities may require the Company to incur restoration costs to comply with the regulations in force. Analysis and estimates are performed by the Company together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which cash outflow may be probable, are recognized as a provision in the Company's financial statements. When the final determination of such obligations differs from the recognized provisions, difference is registered in the Company's profit and loss account.

Additional details on the provisions related to the environment-related obligations are set out in Note 14.

- ***Deferred tax assets***

Deferred tax assets resulting from the unused tax losses are recognized only to the extent that it is probable that taxable profit will be available, against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Additional details on the deferred tax applicable to the corporate tax Note 20.

- ***Carrying value of trade and other receivables***

The Company assesses at each reporting date the requirement for an adjustment for impairment in trade and other receivables. The Company uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an adjustment. The adjustment is recognized where there is an objective evidence that a particular trade receivable or a group of trade receivables are impaired.

- ***Carrying value of inventories***

The Company considers on a regular basis the carrying value of inventories in comparison to planed use of the inventories, the effect of damaged or obsolete inventories, technical losses and the net realizable value in comparison to the cost, based on latest available information and market conditions. As applicable, it is recorded an adjustment for impairment of inventories.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Provision for litigations***

The Company analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the litigation, the expected claim to be paid and the expected timing of the payments. Changes to these estimates could have a significant impact on the amount of the provision. Further details on the provisions relating to litigations are provided in Notes 14, 18, 25.

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a. Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables at amortized cost;
- Held-to-maturity investments, at amortized cost;
- Available-for-sale financial assets, at fair value with the changes recognized directly in equity;

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Company has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR (effective interest rate) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

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

b. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

c. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Impairment of financial assets

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognised the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a Company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

g) Property plant and equipment

Property, plant and equipment of the Company are stated at cost less cumulative depreciation, except for buildings that are periodically revalued and booked at fair value.

The initial cost of property, plant and equipment comprises its purchase price, including custom duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and the condition necessary for operation. Expenses incurred after commissioning of the asset, such as repairs and maintenance costs are recorded in the income profit and loss account in the period in which the costs occurred. In situations where it can be demonstrated that expenses have increased the future economic benefits obtained from the use of intangible assets besides the standard evaluation of its performance, the expenditure is capitalized as additional costs of the tangible assets.

Starting December 31, 2017, the Company changed its accounting policies regarding the recognition and measurement for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

Buildings category are measured at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation. Valuations need to be performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings, unless a transfer hasn't been already made during utilization period of the revaluated asset.

Assets in progress represent installations and buildings in construction and are presented at cost, less any impairment losses. This includes the cost of construction and other direct costs. Depreciation of these assets and the others is registered starting with the date when they are ready to be used for the activity they are intended.

Buildings and other constructions	10 - 100 years
Tanks	20 - 30 years
Tools and other technological equipment	3 - 20 years
Vehicles	5 years
Furniture and office equipment	3 - 10 years
Computers	3 years

Hence to changing of the accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revaluated at December 31, 2017. The remaining life utilization were estimated by the specialized valuer based on ANEVAR's Assessment Guide GEV 500 (in concordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018.

When assets are sold or derecognized, their cumulative costs and depreciation are eliminated and any income or loss resulting from their disposal is included in the income statement.

Assets purchased under finance leases are recorded in the statement of financial position and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

h) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits should be attributable to the asset and flow to the enterprise and if the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives:

Intangible assets consist of software and licenses and are amortized on a straight-line basis over 3 - 5 years, respectively 24-25 years for the licenses for transmission of technological data from the plant to the Refinery command center.

Development costs for specific projects which are reasonably anticipated to be recovered through commercial activity as well as expenditure on acquired computer software licenses are capitalized and amortized using the straight-line method over their useful lives, generally 3 years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets

Financial assets represent long-term strategic investments and are stated at historical cost, less any adjustments impairment caused by a diminished value. The main indicators considered for the identification of impairment are current and anticipated results of the company in question, in the context of the industry in which it operates.

Further details on financial assets are provided in Note 6.

j) Impairment of non-financial assets

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the respective asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is stated at revalued amount in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in the income statement net of any reimbursement. 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. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additional comments on the following specific liabilities are:

- ***Decommissioning liability***

Decommissioning costs are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the income statement as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are added to or deducted from the cost of the assets

- ***Environmental liabilities***

Environmental expenditure that relates to current or future revenues is expensed or capitalized as appropriate. Expenditure that relates to an existing condition caused by past operations and that does not contribute to current or future earnings is recorded in the profit and loss account.

The Company has an environmental policy which complies with existing legislation and complies with any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Company has set up a monitoring system in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any known future environmental requirements.

The above mentioned expenses are estimated based on the relevant environmental studies.

Liabilities for environmental remediation costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

l) Inventories

Inventories, including work-in-process are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

m) Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators the receivable must be impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Cash and cash equivalents

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

o) Recognition of revenues

Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and sales discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its concluded arrangements.

The following specific recognition criteria must be met before revenue is recognized, if the entity:

- has primary responsibility for providing the goods or services;
- has inventory risk;
- has discretion in establishing prices;
- bears the credit risk.

In addition:

- Sales of goods are recognized when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognized when services are rendered.
- Interest income is recognized on a time-portion basis using the effective interest method.
- Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

p) Interest bearing loans

All loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortized cost, using the effective interest method.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well through the amortization process.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All the other costs are expensed in the period they occur. Borrowing costs consists of interest and other cost that an entity incurs in connection with the borrowing of funds.

q) Retirement benefit costs

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Company pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under collective labor agreements, the employees are entitled to specified retirement benefits, payable on retirement, if they are employed with the Company at the date of their retirement. These amounts are estimated as of the reporting date, based on the following informations: applicable benefits provided in the agreement; the number of employees in the Company and the actuarial estimates of the future loans. The defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the profit and loss account. All actuarial gains and losses are fully recognised in other comprehensive income items in the period in which they occur for all defined benefit plans. Actuarial gains and losses recognized in other comprehensive income are presented in the statement of comprehensive income.

The Company has no other liabilities with respect to future pensions, health plans and other costs for its employees.

r) Taxes

- ***Current income tax***

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. 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 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;
- 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 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 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.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 profits 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 in 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 until the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss account is recognized outside profit or loss account. Deferred tax items are recognized 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 income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

- ***Sales (revenues) related tax***

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

s) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

t) Emission rights

The Company refining and petrochemicals operations are allocated CO2 emission rights quota.

The Company accounts for the liability for these emissions using net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies.

u) Foreign Currency Transactions

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The exchange rates RON/USD and RON/EUR are the following:

Currency	31 December 2017	31 December 2016
RON/USD	3.8915	4.3033
RON/EUR	4.6597	4.5411

The Company translates its transactions and balances in foreign currency, in the functional currency by applying the exchange rate between the functional currency and the foreign currency at the date of transaction.

Exchange rate differences arising on the settlement of monetary assets and liabilities or on reporting them at rates different from those at which they were initially recorded during the period or reported in the previous financial statements are recognized in the income statement in the period they arise.

v) Derivative financial instruments

The Company enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the Company primarily to commodity risks of changes in fair value of crude oil and related oil products.

The Company uses financial instruments (primarily futures, options and swaps) to hedge its risks associated with fair value fluctuation relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Fair value hedge

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). The company hedges priced inventories (both raw materials and finished products) around BOS (based operated stock) using futures instruments for a period that approximately matches the operating cycle.

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognized, the unamortized fair value is recognised immediately in profit or loss (see Note 16).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in period profit or loss as they arise.

Cash Flow Hedge

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). Throughout a given period, the volatility associated with the oil market, both in crudes and in finished, is transmitted to the Company's refinery margin (difference between the purchase price of crude oil and the selling price of finished products). To reduce this volatility, the Company hedges the margin with a swap on a hedged basket as relevant for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see Note 16).

w) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. INTANGIBLE ASSETS

	Software / Licenses	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2016	**45,794,808**	**150,123**	**-**	**45,944,931**
Additions	124,494	-	6,441,382	6,565,876
Transfers*	49,548	-	-	49,548
Closing balance as of December 31, 2016	**45,968,850**	**150,123**	**6,441,382**	**52,560,355**
Additions	145,321	-	410,749	556,070
Closing balance as of December 31, 2017	**46,114,171**	**150,123**	**6,852,131**	**53,116,424**
Accumulated amortization				
Opening balance as of January 1, 2016	**(32,602,137)**	**(12,510)**	**-**	**(32,614,647)**
Charge for the year	(3,170,817)	(50,041)	-	(3,220,858)
Closing balance as of December 31, 2016	**(35,772,954)**	**(62,551)**	**-**	**(35,835,505)**
Charge for the year	(2,611,891)	(50,041)	-	(2,661,932)
Closing balance as of December 31, 2017	**(38,384,844)**	**(112,592)**	**-**	**(38,497,436)**
Net book value				
As of December 31, 2016	**10,195,896**	**87,572**	**6,441,382**	**16,724,850**
As of December 31, 2017	**7,729,326**	**37,531**	**6,852,131**	**14,618,988**

**) Includes transfers from assets in progress, transfers in/from tangible assets, reclassifications to other categories and other adjustments.*

Major part of „Other" intangible assets refer to development expenses.

4. GOODWILL

The goodwill amounting to RON 152,720 represents fractions of the trade funds of the companies Oilfield Exploration Business Solutions SA (former Rompetrol S.A)., Rompetrol Downstream S.R.L. and Rompetrol Well Services S.A., following purchase of shares from these companies in Rom Oil S.A.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Furniture and others	Construction in progress	Total
Cost or valuation						
As of January 1, 2016	**192,480,007**	**1,853,605,669**	**3,339,766,162**	**12,154,340**	**65,133,760**	**5,463,139,938**
Acquisitions	-	-	3,108,595	88,411	144,005,046	147,202,051
Transfers from CIP	-	13,395,972	33,766,626	4,564	(47,167,162)	-
Disposals	-	-	(27,786,401)	-	-	(27,786,401)
Transfers and reclassifications*	-	-	3,467	-	(53,917)	(50,450)
As of December 31, 2016	**192,480,007**	**1,867,001,642**	**3,348,858,449**	**12,247,315**	**161,917,727**	**5,582,505,139**
Acquisitions	-	7,951	2,776,519	47,169	233,753,224	236,584,863
Revaluation	-	695,473,926	-	-	-	695,473,926
Transfers from CIP	-	43,931,192	162,717,589	4,095,408	(210,750,367)	(6,178)
Transfers and reclassifications*	-	(981,048,534)	-	-	-	(981,048,534)
As of December 31, 2017	**192,480,007**	**1,625,366,178**	**3,514,352,557**	**16,389,891**	**184,920,584**	**5,533,509,217**
Accumulated depreciation & Impairment						
As of January 1, 2016	**(22,220,959)**	**(877,386,099)**	**(1,415,332,935)**	**(5,483,894)**	**(3,171,485)**	**(2,323,595,372)**
Charge for the year	(1,839,934)	(50,129,586)	(216,008,646)	(660,711)	-	(268,638,878)
Accumulated depreciation of disposals	-	-	27,786,401	-	-	27,786,401
Transfers and reclassifications*	-	-	(3,467)	-	-	(3,467)
As of December 31, 2016	**(24,060,893)**	**(927,515,686)**	**(1,603,558,648)**	**(6,144,605)**	**(3,171,485)**	**(2,564,451,316)**
Charge for the year	(1,839,934)	(53,574,511)	(213,631,668)	(854,973)	-	(269,901,085)
Transfers and reclassifications*	-	981,048,534	-	-	-	981,048,534
As of December 31, 2017	**(25,900,827)**	**(41,662)**	**(1,817,190,315)**	**(6,999,577)**	**(3,171,485)**	**(1,853,303,867)**
Net book value as of December 31, 2016	**(27,740,762)**	**927,432,361**	**1,745,299,801**	**6,102,710**	**158,746,242**	**3,018,053,823**
Net book value as of December 31, 2017	**166,579,179**	**1,625,324,515**	**1,697,162,242**	**9,390,314**	**181,749,099**	**3,680,205,350**

**) Includes transfers from tangible assets in progress, transfers in/from intangible assets, reclassifications to other categories and other adjustments.*

In 2017 Transfers and reclassifications* in amount of RON 981.05 million represents the reverse of the accumulated depreciation at revaluation date for the buildings category against gross book value (GBV) of the revaluated assets.

- **Impairment**

No additional depreciation was recorded in 2017. Impairment test has been performed by the Company related ot the value of non-current assets as of 31 December 2017 for cash generating units ("CGU") detailed bellow in the Impairment test.

- **Construction in progress**

During the year 2017, the significant contribution to the total acquisitions of assets in progress is represented by the capital maintenance project "Refinery Planned Shutdown 2017" (about RON 80.2 million) carried out in order to ensure a high level of safety of the operating equipment and the ISCIR projects within of the two refineries (approximately RON 51.5 million). Besides these an important contribution is provided by "HDPE Unit restart; project (around RON 16.5 million) and tanks rehabilitation projects (around RON 20.3 million). Part of these projects have been transferred to the other property, plant and equipment categories.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017 the main projects remaining in construction in progress refers to the Tank rehabilitation amounting to RON 30.3 million, ISCIR authorizations amounting to RON 31.7 million, HDPE Unit restart amounting to RON 16.5 million and Refinery specific optimization programs amounting to RON 53.3 million in respect of Rompetrol Rafinare SA. Regarding the HDPE plant, with the support and decision of the majority shareholder, the company started at the end of last year the mechanical and organizational works for bringing this plant to operation. At the time of preparation of the financial statements, the mechanical works are completed, the restarting technological tests being carried out at these times (March 2018). In the near future, depending on the appropriate market moment, the effective operational start of HDPE installation will take place. The net book value (NBV) of HDPE installation is in amount of RON 82.6 million at 31.12.2017.

In 2016 out of the Company total acquisitions for construction in progress the most significant refers to the following projects: Refinery specific optimization programs amounting to RON 31.5 million, ISCIR authorizations amounting to RON 21 million, Tank rehabilitation amounting to RON 17.4 million and Refinery 2017 turnaround amounting to RON 12.6 million.

In 2016 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to RON 32.6 million, ISCIR authorizations amounting to RON 21 million, Refinery 2016 specific optimization programs amounting to RON 24.15 million and Refinery 2017 turnaround amounting to RON 12.4 million. Part of these projects have been transferred to other property, plant and equipment categories.

- **Disposal**

No asset disposals were recorded in 2017.
In 2016, the amount of RON 27.8 million disposed assets, refers to replacement of used catalysts for MHC unit (Mild hydrocracking).

- ***Capitalization of borrowing costs***

The Company finances its activities inclusively through loans and the cost of debt for the acquisition of assets is capitalized in the cost of the asset, when specific loans have been obtained (investment). In the year ended as at 31 December 2017 the interest was not capitalized.

- **Revaluation of buildings category**

Starting December 31,2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A net gain from the revaluation of the Company's buildings category of RON 695.5 million was recognized in the building category.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of carrying amount

	Buildings
	million RON
Carrying amount as at December 31, 2016*	**939**
Revaluation gain recognized due to change in accounting policy to revaluation model	715
Revaluation loss recognized	(20)
Depreciation for the year	(54)
Additions/Disposals/Transfers and reclassifications	44
Carrying amount and fair value as at 31 December 2017	**1,625**

*The Company changed the accounting policy with respect to the measurement of buildings category as at December 31, 2017 on a prospective basis. Therefore, the fair value of the of buildings category was not measured at December 31, 2016.

If the buildings category was measured using the cost model, the carrying amounts would be, as follows:

	2017
	million RON
Cost	1911
Accumulated depreciation and impairment	(981)
Net carrying amount	**930**

- ***Fixed assets pledged***

The company pledged assets net amounting to RON 1,135,075,542 (2016: RON 984,474,779), as follows:

- guarantees in favor of banks: RON 864,851,354 (2016: RON 720,649,301);
- guarantees in favor of ANAF: RON 270,224,188 (2016: RON 263,825,478).

In 2010 it was established by ANAF a distraint on all fixed assets and investments and on the equity as well as on the shares, amounting to RON 1,595,020,055 in favor of the Romanian state (represented by ANAF). On these titles there was set up a rank 2 guarantee in favor of KMG International N.V.

On the guarantees in favor of ANAF, on September 10th, 2010, ANAF has established a distraint on the investments held by the Company in its subsidiaries and on the movable and immovable assets of the Company, except inventories. The distraint is based on article 129 of the Fiscal Procedure Code and the main result is that the Company cannot sell / transfer the assets under distraint.

According with the Memorandum of Understanding signed with the Romanian State and approved by Government Decision no. 35/2014, ANAF should remove and revoke the distraint established on 10 September 2010.

On 9 May 2016, Rompetrol Rafinare SA was notified that it was included as a civil responsible party in a file under investigation by DIICOT. Also, on the same date, the movable and immovable assets of Rompetrol Rafinare SA, as well as all the participations in companies across the country, were distrained.

On December 31st, 2017 no enforcement process has been made.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

IMPAIRMENT TEST

Impairment tests have been performed by the Company for the carrying value of goodwill and property plant and equipment as of 31 December 2017 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2017 the net book value of property plant and equipment for the cash generating units is the following Refining 3,170 million RON, Petrochemicals 337 million RON.

Refining

Refining CGU includes the operations of Petromidia Refinery and Vega Refinery. The recoverable amount of Refining CGU unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016: 9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

Petrochemicals

Petrochemicals CGU includes the petrochemical business of the group, which is included within Rompetrol Rafinare legal entity; the unit is involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016:9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

Key assumptions used in fair value less costs to sell calculations

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned CGUs are:

- Operating profit;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Following Operating profit margin on the basis of Net revenues were applied for the relevant Cash Generating Units:

	2018	2019	2020	2021	2022
Rompetrol Refinery	2.8%	5.8%	5.6%	6.2%	5.3%
Petrochemicals	-2.9%	-0.1%	-0.8%	0.6%	1.1%

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes that it is very unlikely that changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

Rompetrol Refinery

The break-even point for the current model is achieved under a decrease of 59.1% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.1%	2.4%	2.3%	2.5%	2.2%

Petrochemicals

The break-even point for the current model is achieved under a decrease of 39.5% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	-	-	-	0.3%	0.7%

*Operating profit margins were computed based on net revenue.

6. FINANCIAL ASSETS

	31 December 2017	31 December 2016
Investments in subsidiaries	1,629,020,055	1,629,020,055
Total	**1,629,020,055**	**1,629,020,055**

Investments in subsidiaries

Details regarding subsidiaries at 31 December 2017 and 31 December 2016 are as follows:

	Range of activity	Ownership at 31 December 2017	Ownership at 31 December 2016	Balance as at 31 December 2017	Balance as at 31 December 2016
Rompetrol Downstream S.R.L.	Fuel sales	99,99%	99,99%	1,090,406,067	1,090,406,067
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100,00%	100,00%	311,698,295	311,698,295
Rom Oil S.A.	Rental services	99,99%	99,99%	191,216,660	191,216,660
Rompetrol Logistics S.R.L.	Logistics operations	66,19%	66,19%	24,349,123	24,349,123
Rompetrol Quality Control S.R.L.	Quality Control Services for oil products	70.91%	70.91%	11,349,910	11,349,910
Total of equity investments				**1,629,020,055**	**1,629,020,055**

Financial assets represent long-term strategic investment and are recorded at cost less any allowance for impairment for diminished value. The main indicators taken into account to identify impairment are current and anticipated results of the Company in the context of the industry in which it operates.

6. FINANCIAL ASSETS (continued)

At December 31, 2017, the Company's management conducted a review of the indicators of impairment of subsidiaries. Following this analysis, no impairment indicators were identified for any of the subsidiaries.

7. INVENTORIES, NET

	December 31, 2017	December 31, 2016
Crude oil and other feedstock materials	560,632,354	451,924,829
Finished products	294,460,794	209,334,771
Work in progress	127,069,512	120,977,712
Spare parts	52,960,693	52,567,514
Other consumables	21,541,544	21,539,603
Merchandises	1,254,210	869,809
Other inventories	3,543,028	3,516,225
Inventories reserve	(47,203,208)	(44,103,284)
Total	**1,014,258,927**	**816,627,179**

The inventories of finished goods comprise mainly petroleum products.

As at December 31, 2017 the Company has under pledge crude oil stocks and petroleum products amounting RON 543,675,803, respectively RON 357,697,328 la December 31, 2016.

The movement of the provision for inventories in year 2017 and in year 2016 is presented below:

	December 31, 2017	December 31, 2016
Reserve at the beginning of the year	**(44,103,284)**	**(63,913,493)**
Accrued provision	(29,951,519)	(22,316,909)
Write off	-	(1,524,350)
Reversal provision inventories reserve	26,851,595	43,651,468
Reserve at the end of the period	**(47,203,208)**	**(44,103,284)**

The provisions for inventories represent provisions for the net realizable value.

8. TRADE AND OTHER RECEIVABLES, NET

	December 31, 2017	December 31, 2016
Trade receivables	1,526,173,286	841,197,413
Advances to suppliers	11,392,740	21,079,937
Sundry debtors	26,811,309	119,152,205
VAT to be recovered	2,990,566	120,162
Other receivables	72,879,061	99,367,359
Reserve for bad and doubtful debts	(62,619,691)	(62,290,869)
Total	**1,577,627,271**	**1,018,626,207**

The balances with affiliated parties are presented in Note 22. The movement of provision is presented in Note 18.

8. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017, the sundry debtors account included the following main items: RON 11.85 million for debts and related penalties paid to ANAF in reference to the fiscal inspection conducted for the years 2007-2010 (see note 25); RON 13.7 million in local taxes paid to the Navodari City Hall (in respect of revaluation of buildings; see note 25).

In other receivables it is included VAT receivable from members of the Fiscal Group (RON 14.47 million); receivables from the State Budget representing excise, energy products paid in advance by customers in States Budget excise revenue account (RON 55.94 million).

Trade receivables totaling RON 219 million at 31 December 2017, respectively totaling RON 328.5 million at 31 December 2016 are pledged in order to obtain credit facilities (see Note 12).

The movement of adjustments for depreciation of trade receivables is as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	**(62,290,869)**	**(62,021,962)**
Impairment losses recognized on receivables	(2,081,781)	(157,280)
Impairment losses reversed	280,233	444,879
Translation differences	1,472,726	(556,506)
Balance at the end of the period	**(62,619,691)**	**(62,290,869)**

At 31 December 2017 the analysis of receivables maturity dates is as follows:

			Past due but not impaired				
	Total	Neither past due not impaired	1-30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2017	1,470,315,538	1,015,680,845	151,923,166	2,521,925	(134,983)	1,289,888	299,034,695
31 December 2016	784,442,261	402,052,072	29,648,971	18,436,822	109,070	35,318	334,160,008

Trade receivables are not bearing interest and become mature at 30-90 days.

At 31 December 2017, the trade receivables at the initial value of RON 55.86 million (2016 RON 56.75 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	Collectively impaired
At January 1, 2016	**(56,486,246)**
Value adjustments for impairment of receivables	(157,280)
Reversed provisions	444,879
Exchange rate difference	(556,506)
At December 31, 2016	**(56,755,153)**
Value adjustments for impairment of receivables	(855,554)
Reversed provisions	280,233
Exchange rate difference	1,472,726
At December 31, 2017	**(55,857,748)**

9. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash at bank	22,394,325	44,732,891
Cash on hand	7,605	2,273
Transitory amounts	3,940	861,470
Other cash equivalents	457,410	294,915
Total	**22,863,280**	**45,891,549**

Other treasury values represent in the greatest part checks to be cashed.

10. OWN CAPITALS

10.1 SHARE CAPITAL

As at 31 December 2017 and 31 December 2016, the share capital consists in 44,109,205,726 ordinary shares, authorized, wholly issued and paid up, with a nominal value of RON 0.1 per each share.

The shareholder structure at 31 December 2017 and 31 December 2016.

Shareholders	Percent held (%)	Statutory amounts in [RON]
KMG International N.V	48.11%	2,122,250,643
The Romanian State represented by The Ministry of Energy	44.70%	1,971,500,905
Rompetrol Financial Group S.R.L.	6.47%	285,408,308
Rompetrol Well Services S.A.	0.05%	2,198,030
Rompetrol Rafinare S.A.	0.01%	613,470
Others (not State or KMGI Group)	0.66%	28,949,217
Total	**100%**	**4,410,920,573**

The total value of the Company's share capital remained unchanged in year 2017 and in year 2016.

Following the Extraordinary General Meeting of Shareholders of 30 June 2010, which approved the capital increase with up to RON 450 million, Rompetrol subscribed and paid a total of 3,294,914,165 shares (equivalent of USD 100,222,279), and minority shareholders have subscribed and paid a total number of 6,506 shares (USD 198). These shares have been registered with the Trade Register. The proceeds of the capital increase were used to partially redeem the bonds held by the Romanian state.

After the Extraordinary General Meeting of Shareholders on 30 September 2010, the Company converted remaining unredeemed bonds into shares in favor of the Romanian State, resulting a total of 19,715,009,053 shares amounting to RON 1,971,500,905 (USD 627,546,964).

Consequently, the Romanian state, through the Ministry of Finance owns 44.7% in the Company.

10.2 SHARE PREMIUM

The share premium is the result of conversion of bonds into ordinary shares on 30 September 2010, in favor of the Romanian State, represented by the Ministry of Finance, by the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

10. OWN CAPITALS (continued)

10.3. LEGAL RESERVE

Out of the 2017 realized profit, the Company distributed to legal reserves RON 20,916,836, the rest of the profit being used for covering losses carried forward, according to the note presented below:

Profit Sharing

Scope	Amount
	418,336,728
Net profit to distribute, out of which for:	
Legal reserve	20,916,836
Coverage of losses from previous years	397,419,892

10.4 REVALUATION RESERVES

Starting December 31,2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A gain from the revaluation of the Company's buildings category of RON 715.08 million was recognized in the Other Comprehensive Income (OCI).

Also the Company recognized in 2017 a debit balance of "Deferred tax" in amount of RON 114.4 million related to the temporary differences resulting from the revaluation surplus. Strictly for presentation purposes of the Financial Position (page 3) the Revaluation reserves balance is presented in net of RON 600.66 million, being affected by the deferred tax mentioned before. The debit balance of Deferred tax on the revaluation reserve in amount of RON 114.4 million was recognised in the OCI.

10.5 OTHER RESERVES

Hybrid Loan

The "Other reserves" item includes the value of the hybrid loan in amount of RON 3,449 million (USD 1,022 million)

In 2012, USD 800 million of the total outstanding balance of the loan payable to KMG International NV was converted into an unsecured hybrid loan, repayable after 51 years. During 2013, an additional USD 150 million were converted, the hybrid loan amounting to USD 950 million. The loan is unsecured, subordinated to any present and future liability of the company. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 15% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- the company records net profit after tax in the year
- the company will be able to distribute dividends as per the Romanian law requirements

10. OWN CAPITALS (continued)

The contract states that the interest rate mentioned above will be adjusted if the market conditions impose it, depending on the level of market interest existing at the time of the contract execution.

In 2017 an additional USD 72.2 million were transferred to hybrid loan by conversion of a debt held in front of KMG International NV.The additional loan is unsecured, repayable after 51 years and subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- the company records net profit after tax in the year
- the company will be able to distribute dividends as per the Romanian law requirements

Also, in 2017 it was carried on and recognized a liability for the potential interest on the hybrid loan in amount of RON 57.2 million, based on the projected profitability of the business for the period remained until reimbursement of the hybrid loan.

During 2017 unrealized derivative gains and gains/losses related to retirement benefits were booked in Other Reserves as follows:

	2017	2016
Actuarial gain/(losses) related to retirement benefits	(1,078,366)	(6,448,613)
Gains/(losses) related to derivative financial instruments	(538,518)	22,758
Total	**(1,616,884)**	**(6,425,855)**

11. COMMERCIAL LIABILITIES AND OTHER LIABILITIES

	December 31, 2017	December 31, 2016
Trade payables	3,281,800,731	3,155,920,002
Advances from customers	77,495,051	85,097,092
VAT payable	130,526,638	117,191,493
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,180)	15,570
Employees and social obligations	14,343,553	8,129,681
Other liabilities	449,441,653	356,448,532
Total	**3,981,167,078**	**3,750,363,002**

The Company has a cash pooling agreement in place in order to implement a cash balance optimization system, where KMG Rompetrol S.R.L. is "Coordinating Company", and the group companies are participating companies.

The cash pooling debt amounts to RON 410.71 million (2016: RON 333.63 million) and is recognised in "other debts".

12. SHORT-TERM LOANS

Short-term loan from related parties:

	31 December 2017	31 December 2016
KMG International N.V. Short-term credit facility for working capital needs, amounting to a maximum of USD 250 million, USD 50 million due on December 31, 2018 and USD 200 million refunded upon request; guarantees: assignment of receivables, pledge on holdings in Rompetrol Logistics, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil; pledge on bank accounts. The undrawn amount as at December 31, 2017 is in amount of USD 122.89 million.	494,663,734	843,734,704
Rompetrol Well Services SA Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - January 10, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	13,000,000	13,000,000
Rompetrol Well Services SA Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - January 14, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	7,000,000	7,000,000
Rompetrol Well Services SA Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - January 3, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	3,100,000	3,100,000
Rompetrol Well Services SA Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - February 28, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	11,200,000	11,200,000
Midia Marine Terminal SRL Short-term facility for working capital needs in amount of RON 27.211 million (through conversion of the loan in value of USD 7 million at NBR exchange rate communicated at July 31, 2017), maturity date December 31, 2018. The facility has been fully used.	27,211,100	30,123,100
Rompetrol Financial Group SRL Short-term facility for working capital needs in amount of USD 29.215 million, maturity date December 31, 2018. The facility has been fully used.	115,000,000	115,000,000
Interest due	11,966,483	42,812,627
	683,141,317	**1,065,970,431**

Short-term loan from banks

	31 December 2017	31 December 2016
Bancpost Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m2; assignment of rights from insurance compensation.	31,530,791	88,838,025
Bancpost Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 31 July 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS =EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.	-	10
Interest due	271,981	345,226
	31,802,772	**89,183,260**

12. SHORT-TERM LOANS (continued)

	31 December 2017	31 December 2016
Syndicated loan – through Unicredit Bank as payer agent	435,337,221	-
TOTAL	**467,139,993**	**89,183,260**

All the financial covenants applicable were complied with as of December 31, 2017.

All loans are interest bearing and the weighted average interest rates per currency are the following: EUR 2.97% (2016: 2.98%), RON 5.38% (2016: 4.2%) and USD 4.32% (2016: 3.17%).

The loans bearing guarantees are secured with pledges on property plant and equipment RON 683.3 million (2016: RON 720.7 million), inventories RON 543.7 million (2016: RON 357.7 million) and trade receivables RON 219 million (2016: RON 328.5 million).

13. LONG-TERM LOANS

	31 December 2017	31 December 2016
Syndicated loan – through Unicredit Bank as payer agent Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompetrol Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 2018. The following mortgages are set up to secure the loan: a) the credit balances of all current accounts present and future; b) the rights of insurance compensation; c) inventories (Propylene, Ethylenne, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% of the debts assigned to notify the clients.	**-**	**281,763,783**
TOTAL	**-**	**281,763,783**

At the end of 2017 the long-term credit no longer records balance due to the reclassification of the amounts from the Syndicated loan in the short-term loan, taking into account that on 31.12.2017 the maturity term (April 23, 2018) is less than 1 year.

The movement of loans in 2017 is presented below:

	At January 01, 2017	Movement	At December 31, 2017
Long-term borrowings from banks	281,763,783	(281,763,783)	-
Short-term borrowings from banks	88,838,035	378,029,978	466,868,013
Short-term borrowings from shareholders and related parties	1,023,157,804	(351,982,969)	671,174,834
Total	**1,393,759,621**	**(255,716,774)**	**1,138,042,847**
Interest short-term borrowings from banks	345,226	(73,245)	271,981
Interest short-term borrowings from shareholders and related parties	42,812,627	(30,846,144)	11,966,483
Total	**43,157,853**	**(30,919,389)**	**12,238,464**

14. PROVISIONS

	31 December 2017	31 December 2016
Non - current provision	327,130,219	302,311,412
Total	**327,130,219**	**302,311,412**

The movement of the provisions is presented below:

	As at January 1, 2017	Other comprehensive income	Arising during the year	Utilized	As at December 31, 2017
Retirement benefit provision	29,955,509	1,078,366	1,695,786	(664,676)	32,064,985
Provision fiscal	-	-	13,654,238	-	13,654,238
Environmental provision	272,355,903	-	9,055,093	-	281,410,996
Total	**302,311,412**	**1,078,366**	**24,405,118**	**(664,676)**	**327,130,219**

The environmental provision for the Vega refinery in amount of RON 281.4 million represents obligations for cleaning of the oil sludge pools and restoration of contaminated land.

During 2012, an evaluation report was issued by an independent expert, evaluation report estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 5 year period, a discounted cash flow cost estimate of RON 272 million has been provided by the Company as of the end of 2016, for which the Company booked a provision.

An additional environmental provision for site restoration in amount of RON 9.06 million was recognised in 2017 for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. A discount factor of 4.38% (2016: 9.6%) was applied for the discounted cash flow calculation, leading to an increase in provision in 2017.

Currently, the prequalification stage is in progress and considering the further bidding process and final contract negotiation, works are expected to start during the second quarter of 2018.

Following the ending in December 2017 of the general fiscal audit initiated and performed by ANAF - DGAMC started in October 2016 referring to the fiscal period 2011- 2015, the Company booked a fiscal provision in amount of RON 13.65 million based on the findings and additional tax charges for the period concerned.

Retirement obligations provision - Under the collective labor agreements in force, employees are entitled to certain benefits that are payable on retirement, if the employees are employed with the entities at the date of their retirement. These amounts are estimated as of the reporting date based on: the specific benefits provided in the agreement, the number of employees working within the company at date and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 4.52% in 2017 (2016: 3.49%), with an expected rate of long-term salary increase of 3.46% in 2017 (2.23% in 2016).

14. PROVISIONS (continued)

Amounts recognized in profit or loss in respect of this obligation are as follows:

	31 December 2017	31 December 2016
Interest on obligation	286,562	355,727
Service cost	1,409,224	1,453,055
Benefits paid (due to restructuring/pension)	(664,676)	(4,483,559)
Total	**1,031,110**	**(2,674,777)**

Amounts recognized in profit or loss in respect of this obligation are as follows:

	31 December 2017	31 December 2016
Opening balance	**29,955,509**	**26,181,673**
Amounts recognized in profit or loss	**1,031,110**	**(2,674,777)**
Changes in assumptions (amounts recognized in OCI))	1,078,366	6,448,613
Closing balance	**32,064,985**	**29,955,509**

The charge for the year is included in the salaries expenses, respectively in the interest related to the profit and loss account,

It is estimated that there are no significant liabilities relating to the provisions that will arise in the next 12 months.

15. REVENUES

	2017	2016
Gross revenues from the sale of finished oil products	14,727,580,720	12,478,833,569
Revenues from petroleum products trading	11,120,556	-
Revenues from petrochemicals trading	6,355,935	3,269,485
Revenues from other merchandise sales	13,821,038	10,579,090
Revenues from utilities sold	7,915,850	7,744,388
Revenues from the sale other products	979,801	626,411
Revenues from rents and other services	13,892,564	13,954,205
Gross Revenues	**14,781,666,464**	**12,515,007,148**
Less sales taxes	(3,588,911,150)	(3,740,685,299)
Total	**11,192,755,314**	**8,774,321,849**

Total Revenues increased mainly due to the increase of prices for crude oil and petroleum products and also due to increased quantity of crude oil processed and of petroleum products sold.

16. COST OF SALES

	2017	2016
Crude oil and other raw materials	9,783,827,276	7,495,305,590
Consumables and other materials	62,390,005	59,379,490
Utilities	338,134,378	325,316,249
Staff costs	86,384,539	84,592,581
Transportation	99,572	120,082
Maintenance	88,153,363	82,889,768
Insurance	6,006,896	6,735,763
Environmental expenses	4,045,475	4,195,675
Other	46,296,909	64,757,322
Cash production cost	**10,415,338,413**	**8,123,292,520**
Depreciation and amortization	231,655,406	238,470,471
Production costs	**10,646,993,819**	**8,361,762,991**
Less: Change in inventories	(87,431,116)	(94,215,657)
Less: Own production of property, plant & equipment	(7,587,798)	(5,435,767)
Cost of petroleum products trading	11,090,945	-
Cost of petrochemicals trading	6,675,732	3,617,506
Cost of other merchandise sales	14,204,355	1,503,243
Cost of utilities sold	6,131,283	5,792,886
Realised (gains)/losses on derivatives	38,266,959	(710,680)
Total	**10,628,344,179**	**8,272,314,522**

Total Cost of goods sold increased mainly due to the increase of prices for crude oil and also due to increased quantity of crude oil processed and of petroleum products sold.

In 2017, in other expenses are included costs for: inspections and quality control in amount of RON 18 million (2016: RON 18.4 million), IT and communications in amount of RON 8.4 million (2016: RON 8.9 million), local taxes in amount of RON 2.2 million (2016: RON 15.2 million), technical consulting in amount of RON 3.3 million (2016: RON 8.5 million), security, fire protection and other services in amount of RON 14.4 million (2016: RON 13.6 million).

17. SELLING, GENERAL AND ADMINISTRATIVE COSTS, INCLUDING LOGISTIC COSTS

	2017	2016
Staff costs	27,070,366	18,441,051
Utilities	7,920,640	6,535,476
Transportation	39,763,131	37,551,536
Professional and consulting fees	81,243,153	47,725,980
Consumables	1,891,058	1,238,469
Marketing	551,726	220,798
Taxes	3,326,557	5,659,655
Communications	69,903	68,328
Insurance	2,179,435	2,154,341
IT related expenditures	5,851,765	7,416,682
Environmental expenses	10,079,109	9,598,312
Maintenance	13,798,337	12,368,095
Fees and penalties	15,734,399	13,712,691
Other expenses	27,483,702	19,436,630
Costs before depreciation	**236,963,281**	**182,128,044**
Depreciation and amortization	40,907,611	33,389,264
Total	**277,870,892**	**215,517,308**

In the "Consultancy" category, the vast majority of expenditures are represented by spending on consultancy and management services from the group's specialized management companies, KMG Rompetrol SRL (KMGR) and KMG International NV (KMGI). Variations of 2017 vs. 2016 are derived from services rendered in 2017 by KMGR and KMGI, incurred by the company through the agreed contractual mechanism - increasing certain cost categories and salaries and performance bonuses (due to improvement in activity).

Also the auditor's fees were recognised in "Professional and consulting fees". The auditors' fees related to the audit of the stand-alone and consolidated financial statements are RON 689,636, the equivalent of EUR 148,000 (in 2016: RON 672,082, the equivalent of EUR 148,000).

18. OTHER OPERATING (INCOME) / EXPENSES, NET

	2017	2016
Provision for receivables, expense	2,081,781	157,280
Provision for inventories and write-off, expense	29,951,519	23,836,867
Other provisions	22,709,331	52,353,942
(Gain) / Loss from revaluation of non-current assets	19,601,302	-
Other expenses	70,211	1,869,856
Other operating expenses	**74,414,144**	**78,217,945**
Provision for receivables, income	(280,233)	(444,879)
Provision for inventories and write-off, income	(26,851,595)	(43,647,076)
Other income	15,896,698	(23,549,049)
Other operating income	**(11,235,130)**	**(67,641,004)**
Total	**63,179,014**	**10,576,941**

The line "Other provisions" includes the movement of environmental provision related to Vega refinery and of the provision related to the general tax audit (please see note 14)

18. OTHER OPERATING (INCOME) / EXPENSES, NET (continued)

In 2017 the movement for environmental provision in amount of RON 9.06 million includes update of new technical assumptions regarding the total value of the greening costs, the discount rate and the impact resulting from the exchange rate differences.

Following the ending in December 2017 of the general fiscal audit initiated by ANAF - DGAMC referring to the fiscal period 2011- 2015, the Company booked a fiscal provision in amount of RON 13.65 million based on the findings and additional tax charges for the period concerned.

Starting December 31, 2017, the Company changed its accounting policy regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. A loss from the revaluation of the Company's buildings category of RON 19.6 million was recognized.

In 2017 "Other, net" includes reclassification of revenues from penalties calculated based on outstanding receivables at 31 December 2016 for KazMunayGas Trading, AG amounting to RON 17.1 million. In 2016 the revenues were recorded as an accrual in other operational revenues and further reversed in 2017, when it were recognized into financial revenues based on its financial nature, for which the company issued interest invoice.

The movement of the provision for inventories in 2017 includes an additional provision set up as the difference between cost and the net realizable value for crude oil and petroleum products as at 31 December 2017, as the products were consumed or sold.

19. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	2017	2016
Finance cost		
Interest expense from banks	15,681,006	13,815,069
Interest expense shareholders and related parties	75,918,355	65,161,725
Commission and other bank charges	68,133,194	51,212,584
	159,732,555	**130,189,378**
Finance income		
Interest income	(44,795,263)	(18,509,735)
Other financial income	(1,644,405)	(2,660,666)
	(46,439,668)	**(21,170,401)**
Finance income/(cost) net	**113,292,886**	**109,018,977**
Unrealized net foreign exchange losses/(gains)	(220,696,825)	39,450,842
Realized net foreign exchange losses/(gains)	(87,571,561)	100,777,182
Foreign exchange (gain)/loss, net	**(308,268,386)**	**140,228,024**
Total	**(194,975,500)**	**249,247,001**

The major increase in 2017 in the "Interest income" line is due to recognizing of interest penalties calculated to some overdue trade receivables from KazMunayGas Trading AG, for which the company issued interest invoices. The total value of the interest booked in 2017 was RON 23.15 million.

20. INCOME TAX

The income tax rate was 16% in 2017 and 2016. In both years the Company booked fiscal losses.

As of 31 December 2016, the Company had the following total unused fiscal losses:

Entity	Fiscal loss 2017	Fiscal loss 2016
	Million RON	Million RON
Rompetrol Rafinare SA	**(1,923.6)**	**(2,451.8)**

Deferred tax assets for losses carried forward were recognized because, following completion of its modernization program, the Company has started to be profitable and reasonable forecasts indicate profitability will continue in the following years. The deferred tax asset was computed based on the schedule of losses expiry (presented below) and the Company's forecasted taxable profits. The taxable profits were derived from the Company's forecast operating profits, which were also used for impairment testing of PPE (see note 5), and adjusted to reach taxable result (e.g. adjusting for fiscal depreciation vs. accounting depreciation and average level of non-deductible expenses).

In 2017, Rompetrol Rafinare recorded fiscal profit, which partially offset the fiscal loss from years 2010 and 2011. Also, in 2017 the cumulative fiscal loss was diminished by RON 144 million, after the fiscal control, affecting the fiscal loss related to 2011-2015 period.

A breakdown of tax losses of the Company in years is displayed below:

Entity Rompetrol Rafinare SA	Fiscal loss Million	Fiscal loss Expires in
2011	123.66	2018
2012	317.09	2019
2013	385.18	2020
2014	710.35	2021
2015	375.11	2022
2016	12.20	2023
	1,923,59	

Reconciliation of comprehensive income with tax result

Below there is a reconciliation between the current income tax recorded in the profit and loss account and the whole expenses with the profit tax, based on the temporary differences and non-deductible items:

	2017	2016
Accounting Net profit	**418,336,728**	**70,001,508**
Addition: Non-deductible expenses	352,134,548	351,090,754
Less: Non-taxable income	(28,710,079)	(89,548,955)
Less: Non-fiscal depreciation	(337,055,123)	(340,244,476)
Deductible legal reserve	(20,916,836)	(3,500,075)
Fiscal (Net loss)	**383,789,238**	**(12,201,244)**
Reported fiscal loss	(2,307,374,419)	(2,439,620,238)
Taxable base	**(1,923,585,181)**	**(2,451,821,482)**
Income tax (16%)	-	-

20. INCOME TAX (continued)

In 2017 the following income was considered non-taxable when calculating tax loss:

- Tax provisions (income from reversal of provisions for which no deduction was allowed) RON 27.13 million;
- The dividends collected in amount of RON 1.58 million;

The following were considered non-deductible expenses when determining tax loss:

- Expenses with accounting depreciation, amounting to RON 272.56 million;
- Expenses with provisions an loss from revaluation, amounting RON 74.3 million;
- Fines, increases, and penalties amounting to RON 0.05 million;
- Other non-deductible expenses amounting to RON 0.3 million.

DEFERRED TAX

	Balance at January 1, 2017	Charged to Profit & loss	Charged to Equity	Balance at December 31, 2017
Temporary differences **Asset/Liability**				
Property, plant and equipment	381,984,741	126,926,977	715,075,229	1,223,986,947
Provisions	(272,355,903)	(9,055,093)	-	(281,410,996)
Fiscal loss	(1,805,713,296)	(117,871,886)	-	(1,923,585,182)
Total temporary differences (Asset)/Liability	**(1,696,084,458)**	**-**	**715,075,229**	**(981,009,231)**
Property, plant and equipment	61,117,559	20,308,316	114,412,037	195,837,912
Provisions	(43,576,944)	(1,448,815)	-	(45,025,759)
Fiscal loss	(288,914,127)	(18,859,502)	-	(307,773,629)
Deferred tax (assets)/liability recognised	**(271,373,514)**	**-**	**114,412,037**	**(156,961,477)**

As of December 31, 2017 it was recognized a decrease of the deferred tax asset in amount of RON 114 million, computed for the revaluation surplus of buildings category, item that was recognized in the OCI.

20. INCOME TAX (continued)

Contingencies related to taxation

The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appear to be subject to significantly less regulation and the company under review appears to have less practically safeguards than is customary in many countries.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements.

21. OPERATING SEGMENT INFORMATION

A. Business segments

For management purposes, the company is organized in two segments - refining and petrochemicals.

2017 Profit and loss statement

	Refining	Petrochemicals	Unallocated amounts between the segments	Total
Net turnover	10,421,490,964	771,264,349	-	11,192,755,314
Cost of sales	(9,917,011,154)	(711,333,026)	-	(10,628,344,179)
Gross profit	**504,479,811**	**59,931,323**	**-**	**564,411,135**
Selling, general and administrative expenses	(244,604,608)	(33,266,283)	-	(277,870,892)
Other operating revenues / expenses, net	(63,179,014)	-	-	(63,179,014)
Operating profit/ (loss)	**196,696,188**	**26,665,040**	**-**	**223,361,229**
Financial expenses	-	-	(159,732,555)	(159,732,555)
Financial revenues	-	-	46,439,668	46,439,668
Net foreign exchange gains / (losses)	-	-	308,268,386	308,268,386
Profit/(loss) before income tax	**391,671,689**	**26,665,040**	**194,975,500**	**418,336,728**
Deferred tax	-	-	-	-
Net Profit / (Loss)	**391,671,689**	**26,665,040**	**194,975,500**	**418,336,728**
out of which Depreciation and amortization	**(219,781,897)**	**(52,781,120)**	**-**	**(272,563,017)**

21. OPERATING SEGMENT INFORMATION (continued)

2016 Profit and loss statement

	Refining	Petrochemicals	Total
Net revenues	8,041,998,440	732,323,409	8,774,321,849
Cost of sales	(7,591,451,915)	(680,862,607)	(8,272,314,522)
Gross profit	**450,546,525**	**51,460,802**	**502,007,327**
Selling, general and administrative expenses	(186,243,781)	(29,273,527)	(215,517,308)
Other operating revenues / expenses, net	(10,576,941)	-	(10,576,941)
Operating profit/ (loss)	**253,725,803**	**22,187,275**	**275,913,078**
Financial cost	(130,189,378)	-	(130,189,378)
Financial income	21,170,401	-	21,170,401
Net foreign exchange gains / (losses)	(140,228,024)	-	(140,228,024)
Profit/(loss) before income tax	**4,478,802**	**22,187,275**	**26,666,077**
Deferred tax	43,335,431	-	43,335,431
Net Profit / (Loss)	**47,814,233**	**22,187,275**	**70,001,508**
Depreciation and amortization	**(218,784,270)**	**(53,075,465)**	**(271,859,735)**

In 2017 turnover of the Company are included clients that own more than 10% of the total sales, their value amounting to RON 7,566.6 million (2016: RON 5,973.7 million).

For the income statement, management analysis are made separately for the 2 segments: Refining and Petrochemicals.

Since many of the Petromidia refinery facilities are used jointly by refining and the petrochemicals segment the balance sheet is analyzed by management at cumulated level for Refining and Petrochemicals segments. As a result, the balance sheet information for segments Refining and Petrochemicals are presented together.

B. Geographical segments

All the production facilities of the Company are located in Romania. The following chart provides an analysis of the net turnover of the Company depending on the geographical market:

	2017	2016
Romania	5,788,549,907	4,318,875,535
Europe	5,144,498,032	4,350,690,784
Asia	185,520,860	57,504,453
America	74,186,515	47,251,078
Total	**11,192,755,314**	**8,774,321,849**

22. RELATED PARTIES

The ultimate parent of the Company is the company "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan, entirely owned by the Kazakh State. The related parties and the nature of relationship is presented below:

Name of the affiliated entity	Nature of the relation
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V
Rominserv S.R.L	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetrol Well Services S.A.	Company held by KMG International N.V
Palplast S.A.	Company held by KMG International N.V
Rompetrol Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetrol Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal S.R.L.	Company held by KMG International N.V
Rompetrol Financial Group S.R.L.	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping S.R.L.	Company held by KMG International N.V
Rompetrol Albania Wholesale Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Ukraine LTD	Company held by KMG International N.V (KMG International N.V. owns 50%)
Rominserv Valves Iaifo SRL	Company held by KMG International N.V
KAZMUNAYGAS – Engineering LLP (former Rominserv Kazakhstan LLC)	Company held by KMG International N.V
Uzina Termoelectrica Midia S.A.	Company held by KMG International N.V (KMG International group holds: 43.42%)
Global Security System S.A.	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Downstream S.R.L.	Company affiliated to the Company
Rompetrol Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Rompetrol Logistics S.R.L.	Company affiliated to the Company
Rompetrol Quality Control S.R.L.	Company affiliated to the Company
Rompetrol Gas S.R.L.	Company held by KMG International N.V
Dyneff Espagna SLU	A company of Rompetrol France group, where KMG International N.V. owns 49%
DPPLN SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
TMP SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Dyneff Gas Stations Network SL	A company of Rompetrol France group, where KMG International N.V. owns 49%
Rompetrol France SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DYNEFF TRADING SL (former Bioneff SL)	A company of Rompetrol France group, where KMG International N.V. owns 49%
Agat Ltd	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 50%)
Rompetrol Albania Downstream Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Albania Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Distribution Albania Sh.A	Company held by KMG International N.V (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V
EPPLN SAS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 49%)
KazMunayGas Trading Singapore	Company held by KMG International N.V (in liquidation)
KMG Rompetrol Services Center SRL (former Rompetrol Exploration & Production SRL)	Company held by KMG International N.V
Rompetrol Drilling	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Bio Advanced Energy SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Bio Advanced Energy PROD SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DP FOS SA	A company of Rompetrol France group, where KMG International N.V. owns 49%
SPR SA	A company of Rompetrol France group, where KMG International N.V. owns 49%

22. RELATED PARTIES (continued)

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Outstanding balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the exercise ended at 31 December 2017, the Company did not record any depreciation of the receivables referring to the amounts due to the related parties (2016: zero). This assessment is performed every year, by analyzing the financial position of the related party and the market in which it is carrying on its activity.

At 31 December 2017 and 31 December 2016, Rompetrol Rafinare had the following balances with the related parties:

	Receivables and other assets	
	December 31, 2017	**December 31, 2016**
KazMunayGas Trading AG	658,908,913	589,077,055
Rompetrol Downstream S.R.L	586,070,373	9,332,185
Rompetrol Petrochemicals S.R.L.	1,657	4,872
KMG International N.V.	3,268,860	92,923,010
Rompetrol Gas SRL	10,047,709	2,953,984
Rompetrol Moldova ICS	-	-
Rompetrol Bulgaria JSC	3,111,148	5,914,904
Rominserv S.R.L.	3,672,459	20,549,377
Rompetrol Quality Control S.R.L.	129,968	141,275
Rompetrol Logistics S.R.L	48,853	34,600
Midia Marine Terminal S.R.L.	1,040,455	1,381,413
Uzina Termoelectrica Midia S.A.	8,467,191	8,319,514
KMG Rompetrol SRL	7,555,392	3,270,515
Global Security Systems S.A.	606,637	606,680
Kazmunaygas – Engineering LLP (former Rominserv Kazakhstan(RKZ))	654,422	723,673
Palplast S.A.	5,340,002	5,340,002
Byron Shipping Ltd.	3,924	952
Rompetrol Ukraina	14,736	16,295
Oilfield Exploration Business Solutions S.A.	1,932,419	6,195,812
Rompetrol Financial Group SRL	10,340	10,309
KMG Rompetrol Services Center SRL	50,516	317,124
TRG Petrol Ticaret Anonim Sirketi	10,521,367	-
Total	**1,301,457,341**	**747,113,551**

The receivable balance in amount of RON 586 million as of December 31, 2017 held against Rompetrol Downstream SRL represents a receivable average balance according to contractual maturities of 30 days. The receivable balance held against the same company as of December 31, 2016 in value of RON 9.3 million was affected by accelerated payments made by Rompetrol Downstream SRL prior to contractual maturity on the background of available liquidities at the level of this company.

22. RELATED PARTIES (continued)

	Payables, loans and other liabilities	
	December 31, 2017	**December 31, 2016**
KazMunayGas Trading AG	2,784,983,327	2,467,408,542
Rompetrol Downstream S.R.L	43,115,612	58,814,262
Rompetrol Petrochemicals S.R.L.	7,685,137	293,605,364
KMG International N.V.- loans(note12)	494,663,734	843,734,704
KMG International N.V.-interest	1,830,480	30,608,711
KMG International N.V.-trade debts	13,976,078	3,271,292
Rompetrol Gas SRL	2,744,523	3,080,054
Rompetrol Moldova ICS	14,231,107	3,522,833
Rominserv S.R.L.	121,931,041	105,032,421
Rompetrol Quality Control S.R.L.	17,245,271	16,455,923
Rompetrol Logistics S.R.L	905,223	715,201
Midia Marine Terminal S.R.L.- loans(note12)	27,211,100	30,123,100
Midia Marine Terminal S.R.L.-interest	4,896,117	3,999,220
Midia Marine Terminal S.R.L.-trade debts	142,234,826	118,619,878
Rompetrol Well Services S.A. - loans (note 12)	34,300,000	34,300,000
Rompetrol Well Services S.A.-interest	-	97,174
Uzina Termoelectrica Midia S.A.	14,154,735	12,571,780
KMG Rompetrol SRL- debt cash pooling	410,707,468	333,637,122
KMG Rompetrol SRL-interest cash pooling	1,328,165	713,459
KMG Rompetrol SRL-trade debts	32,002,902	4,564,787
Global Security Systems S.A.	1,406,484	974,287
Rompetrol Exploration & Production S.R.L.	66	66
Rompetrol Financial Group SRL - loans(note12)	115,000,000	115,000,000
Rompetrol Financial Group SRL-interest	5,239,886	8,107,522
KMG Rompetrol Services Center SRL	1,407,558	1,540,163
Rompetrol Bulgaria JSC	-	-
TRG Petrol Ticaret Anonim Sirketi	565	-
Total	**4,293,201,405**	**4,490,497,865**

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2018.

22. RELATED PARTIES (continued)

In 2017, respectively in 2016, Rompetrol Rafinare had the following transactions with the related parties:

		Sales		Purchases	
Name of related party	**Nature of transaction , sales / purchases**	**2017**	**2016**	**2017**	**2016**
KazMunayGas Trading AG	Raw materials / Petroleum products	3,596,692,762	3,074,000,899	9,239,499,472	7,775,995,804
Rompetrol Downstream S.R.L	Petroleum products, rent, utilities and other	3,976,522,170	2,940,624,360	2,502,695	2,350,825
Rompetrol Petrochemicals S.R.L.	Rent, utilities and other	16,461	16,161	-	-
KMG International N.V.	Loan interest, management services	-	-	40,343,844	28,222,934
Rompetrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	363,426,078	226,361,595	156,034	122,429
Rompetrol Moldova ICS	Sales intermediary services	728,282,995	479,758,572	-	-
Rompetrol Bulgaria JSC	Sales intermediary services	70,100,696	90,761,404	462,673	-
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	2,457,032	2,449,842	326,731,573	405,875,398
Rompetrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	2,910,961	1,352,790	24,230,497	23,702,571
Rompetrol Logistics S.R.L	Transport, rent/Rent, utilities	11,996	11,377	159,759	109,549
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, reinvoicing, loan interest ,others	1,613,115	1,384,284	76,853,466	67,582,242
Rompetrol Well Services S.A.	Loan interest	-	-	1,438,982	1,351,412
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	63,719,869	55,866,290	111,213,549	85,220,940
KMG Rompetrol S.R.L.	Loan interest, management services	21,748,703	18,734,281	104,862,375	58,461,882
Global Security Systems S.A.	Security and protection services	1,452	-	10,503,969	9,528,305
Byron Shipping S.R.L.	Demurrage /Rent, reinvoices of other services	36,621	37,372	69,652	24,143
Rompetrol Financial Group SRL	Loan interest	-	-	4,792,944	3,348,793
Romoil S.A.	Reinvoicing bank loan fees	-	-	-	585,968
KMG Rompetrol Services Center SRL	Shared services	521,953	264,270	14,815,333	-
TRG Petrol Ticaret Anonim Sirketi	Petroleum products	102,508,917	-	80	-
		8,930,571,781	**6,891,623,497**	**9,958,636,899**	**8,462,483,195**

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, based on a Government Ordinance, the Ministry of Economy Trade and Business Environment ("MECMA") became shareholder until May 2013 when, following the reorganization of MECMA, the Ministry of Economy ("ME") became the new shareholder. The ministry was later renamed as Ministry of Energy, Small- and Medium-sized Enterprises and Business Environment. Its current name is Ministry of Energy.

As a result MFPR, MECMA, ME and Other Authorities are considered to be a related party of the Group. There are no transactions, balance sheets at the year-end in relation with MFPR, MECMA, ME and other Romanian authorities during the time of their affiliation, other than those arising from Romanian fiscal and legislation requirements.

The salaries paid to the Company directors in 2017 were RON 761,473 (RON 765,299 in 2016). The salaries and bonuses paid to the Company management in 2017 (in average 12 persons) was RON 2,931,739 (RON 2,955,160 in 2016, in average 13 persons).

23. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2017	2016
Net profit (+), loss (-)	418,336,728	70,001,508
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (bani/share)	0.95	0.16

24. CONTINGENT LIABILITIES

a) Related to the Company's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed that Rompetrol Rafinare S.A. haven't recorded income, to which D.G.F.P Constanta applied excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Company based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 25). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Company processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Company were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Company cancelled such invoices. The Company is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Company liable for paying such excises; the Company appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P. Constanta is RON 9.5 million (USD 2.20 million). The management is confident that the likelihood of reversal of the earlier court decision is very little.

c) The National Agency for Tax Administration started in October 2016 a general tax inspection covering the period 2011-2015 for: income tax, VAT fiscal group set up at the level of Rompetrol Rafinare S.A. (all entities from fiscal group were under fiscal control), withholding tax and excise.

Thorough the Assessment Decision (received in January 2018), there were imposed the following additional taxes: RON 26.1 million representing VAT fiscal group (out of which RON 13.1 million related to the entity Rompetrol Rafinare S.A.), withholding tax in amount of RON 6.5 million and decrease of fiscal loss with RON 144.4 million, both of the lasting related to the entity Rompetrol Rafinare S.A.. The accessories and penalties calculated to the additional charges, strictly related to the Company are in amount of RON 9 million. The principal additional taxes and related penalties were partially compensated with receivable taxes, the difference being paid in cash.

The tax assessment on VAT fiscal group was challenged on February 26, 2018. According to the Romanian Fiscal Procedure Code, the appeal shall be resolved within 45 days of the filing date. If the contestation is not solved within 6 months from the filing date, the contestant may address the competent administrative court for the annulment of the act.

In 2017, in respect of the above-mentioned tax inspection, a provision in amount of RON 13.65 million was booked in relation to Rompetrol Rafinare (see notes 18 and 20).

25. LEGAL MATTERS

Litigation with the State involving criminal charges

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain former shareholders directors, managers and external censors of Rompetrol Rafinare S.A. (”RRC”) and other individuals; these investigations were carried out at a formal level and materialized into different criminal proceeding activities (including specialized judicial expertise), currently undergoing the criminal prosecution phase. At the present date, only one of the directors of the Company who is involved in the investigation, still works for KMG International Group.

The charges brought against the defendants upon the initiation of the criminal investigations were:

a) failure to fulfill the investment commitments undertaken under the privatization contract concerning the Company;
b) unlawful statement of excises and other debts to the state budget;
c) incorrect keeping of accounting registries regarding the technological products operations undertaken at the oil terminal owned by Oil Terminal, charges which concern events that took place during April 2001 – October 2002;
d) the matter of adoption of GEO no. 118/2003.

Considering the above-mentioned charges, a freezing order were issued by DIICOT and received on 9-10 May 2016 (the “Orders”), whereby it was decided to impose a seizure (freezing of the assets) on the movable and immovable assets of KMG International N.V., Rompetrol Rafinare SA and Oilfield Exploration Business Solutions SA (former Rompetrol SA) as well as over the shares these companies held in their Romanian subsidiaries.

The freezing of the assets does not impact the inventories, receivables and the bank account of Rompetrol Rafinare and this allows to the company to continue normally the day by day operations.

Considering the nature of the allegations submitted by DIICOT, the companies KMG International NV, Rompetrol Rafinare SA si Oilfield Exploration Business Solutions SA filed more memories that responded to the accusations formulated by DIICOT. Up to date, no response from DIICOT regarding these memos has been received.

Since the KMG International companies mentioned above had no capacity in the file till 2016 and it seems the entire process (with minor exceptions) of gathering the evidences by DIICOT have been performed before May 2016, the Companies submitted on April 7, 2017 their own application for, on the one hand, evidences to be attached to the file in order to defend and one the other hand to be redone some evidences (such as expertise report) performed before 2016. No reply received yet from DIICOT on this topic.

On April 12, 2017, the companies submitted also their application by which they asked the dismissals of the allegations regarding the OUG 248/200 (regarding the privatization of RRC) and OUG 118/2003 (the issuance of bonds) taking into consideration the recent Constitutional Court decision no. 68/2017 by which the Court settled that the legislative process, as well as the aspects regarding the opportunity and/or lawfulness of a deed issued either by the Parliament and Government cannot be subject of a criminal inquiry and the Constitution provides other leverages assigned to other public authorities to control such instances. No reply received yet from DIICOT on this topic.

Taking into account DIICOT considerations regarding the alleged acts committed before 2007, when the National Company JSC KazMunayGas (KMG) acquired the majority of Rompetrol Group and are subject to File no. 225/2006, KMG and KMG International N.V. (KMGI) sent to the Romanian authorities on July 22, 2016 a Comprehensive Notice formulated on the basis of the treaties on the protection of investments - based on the agreement between the Romanian Government and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania the Energy Charter Treaty.

On October 20, 2016, the Ministry of Public Finance responded briefly to the KMG and KMGI Notification mentioned above.

25. LEGAL MATTERS (continued)

The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. Should a settlement between KMG and Romania fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank, headquartered in Washington, D.C or to the Arbitration Institute of the Stockholm Chamber of Commerce, in line with the provisions of the respective treaties.

On May 10, June 28 and July 21, 2017 the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivable, RRC privatisation and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), intra-companies transactions and budgetary taxes and duties.

On July 17, 2017 DIICOT issued an Ordinance which generally keeps the approach of the Orders issued in 2016 but let the civil parties namely, Ministry of Energy and Ministry of Finance, to provide the figures for the alleged damage they incurred as well as the evidences for supporting any alleged damage.

A statement of defense against the July 2017 Ordinance has been submitted on December 22, 2017 as well a challenge against it submitted in front of the higher prosecutor on September 29, 2017.

Litigation on Tax Assessments received by Rompetrol Rafinare S.A.in 2012

In March 2012, the National Agency for Tax Administration issued to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million (equivalent of USD 15 million at historical rate), out of which half represents additional principal tax liabilities and the other half represents late payment interest and penalties.

Both the Report and the Decision were challenged by Rompetrol Rafinare. The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27th of October 2014 by Constanta Court of Appeal which partially annulled both Decision and the Assessment Decision for payment of RON 48 million (equivalent of USD 15 million at historical rate).

Constanta Court of Appeal held liable the National Agency for Tax Administration for paying back Rompetrol Rafinare approximately RON 21 million (equivalent of USD 6.2 million at the historical rate) and to pursue to audit again for approximately RON 9.7 million (equivalent of USD 2.8 million).

This Decision was appealed by both Rompetrol Rafinare and National Agency for Tax Administration in front of the Supreme Court of Justice. On October 12, 2017, the Supreme Court has rejected both appeals, so the decision of the first instance remained unchanged.
The re-audit was initiated in February 2018 and it is in progress at the date of the Financial Statements.

Litigation regarding CO2 emission allowances.

On February 28, 2011 Rompetrol Rafinare S.A. won the court case against The Romanian Government and The Ministry of Environment which required the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2,577,938 CO2 emission certificates for the entire period 2008-2012 (Decision 69/CA/2011). This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian Government, but the appeals were rejected by the Supreme Court of Justice on October 30, 2012 and the first court decision became final.

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020.

Considering that the Ministry of Environment and the Romanian Government did not fulfill the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of Euro 36 million. – File no. 917/36/2013.

25. LEGAL MATTERS (continued)

On October 11th, 2017, the court joined this file with File no. 712/36/2015, which had the same object (damages) but amounted to Euro 40 million (in accordance with a valuation of the Ministry of Environment itself) and was based on some new entered into force legal provisions.

On July 28th 2015, the Government issued its Decision no. 611/2015 , providing the modification of the National Plan initially approved by Government Decision no. 60/2008 in accordance with the final court decision of October 30 2012 and increasing the allocation of the Company with the amount of 2,577,940 CO2 emission certificates; this decision should have been fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The EC approval was not delivered yet and the Government Decision has still not been effectively implemented up to this date.

The next hearing in the reunited Files 917/36/2013 and 712/36/2015 is on April 16, 2018. An expertise report was provided to the court in respect of the counter value of the certificates and following these proceedings a court decision will have to be issued accordingly. The counter value held by this recent expertise report is EUR 38.51 million.

Litigation between Rompetrol Rafinare and Navodari City Hall

On November 19th, 2015, it was finalized the local taxes fiscal audit of the local taxes, performed by Navodari City Hall, for the period of 2012-2014. The only non-compliant finding refers to revaluation of buildings made by the company on December 31,2009 and December 31,2011, namely that not all fixed assets accounted for in the account 212 "Construction" were revalued, and therefore it was not in accordance with the accounting regulations stipulated by OMFP 3055/2009. As a result, the inspection team considered that for year 2012, certain buildings were not revalued within three years of the previous revaluation and applied a higher local tax rate of 10% for the buildings, and as a consequence assessed an additional tax on buildings and related penalties in total amount of 20.4 mil RON, out of which the principal is RON 11.2 million and the penalties and accessories are RON 9.2 million (calculated until the date of the report)

a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16th, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the Supreme Court shall be scheduled later.

b) Because the decision issued by Navodari City Hall of rejection the administrative complaint as being lack of object is based on Navodari Local Council Decision no.435/December 21, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties, Rompetrol Rafinare submitted a second action for partial annulment of Navodari Local Council Decision no. 435/December 21st, 2015. This action was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term was set on January 16th, 2017, when the appeal was rejected. The solution is final.

c) Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defense was submitted by Navodari City Hall and the first hearing term was established for February 22nd, 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19th, 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the Supreme Court of Justice. The first hearing term before the Supreme Court is scheduled on March 22, 2018.

25. LEGAL MATTERS (continued)

Litigations between Rompetrol Rafinare and National Company – Constanta Maritime Port Administration S.A.

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta *(National Company of Constanta Maritime Ports Administration)* of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the assurance of safe access and operation, the company initiated several legal remedies against it, as follows:

a) Complaint against National Company "Administratia Porturilor Maritime" SA for violating the provisions of art. 9 of the Law no 21/1996 which caused to Rompetrol Rafinare SA damages consisting of USD 1.8 mil USD - dredging expenditures and 3.3 mil USD - commercial loss. The complaint leads to an investigation launched in April 2016 by the Competition Council. Competition Council is entitled to acknowledge the violation by Administraţia Porturilor Maritime of the provisions of art. 9 of Law no. 21/1996, to sanction the said company in accordance with the law and to render it liable to perform, subject to legal terms and conditions, the obligations resting upon it as administrator of port areas and supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port.

b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (0.8 mil USD) and for restitution of dredging expenses (USD 1.7 million). On May 19th, 2017, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff:

   - The amount of EUR 1.57 million, representing dredging expenditures paid by Rompetrol Rafinare SA, during the period 30 April 2015 - 11 May 2015;

   - The amount of RON 0.079 million representing legal costs.

   Both parties filed for appeal against the solution pronounced by first court. On December 27, 2017, Constanta Court of Appeal admitted the appeal filed by Constanta Port Administration, reject the appeal filed by Rompetrol Rafinare SA and changed the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal. The decision is not communicated yet.

Procedure in which is involved Rompetrol Rafinare SA, Rominserv SRL, and employees of the two companies, following of a technical incident occurred in of Petromidia refinery on August 22, 2016

On August 22, 2016 a technical incident occurred within the DAV plant. Following the event, two employees of a Group' subsidiary Rominserv SRL suffered burns and two persons passed away.

The competent authorities have initiated investigations in order to establish the circumstances and the causes that generated the technical incident. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and being open file no. 586 /P/ 2016, within which have been questioned employees of the 2 companies and was administered technical expertise.

Following the completion of the criminal prosecution, Rompetrol Rafinare S.A., Rominserv SRL and four employees were put on trial for: the non-observance of the legal labor health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party.

25. LEGAL MATTERS (continued)

By the final conclusion of Preliminary Chamber procedure, communicated to Rompetrol Rafinare on March 27, 2017 the court ordered, considering the fact that the prosecutor did not reply within procedural five days, to return the case to the Prosecutor's Office Court Appeal Constanta, finding relative nullity of the Ordinance no. 586 /P/2016, irregularity of the indictment, prosecutor failure to respond within procedural terms. The Prosecutor's Office Court Appeal Constanta made appeal.

On June 21, 2017 the Constanta County Court admitted the prosecutor's appeal and ordered the retrial of the case by Constanta Court with the observance of the legal dispositions on the summoning of the parties, namely the aggrieved persons and prosecutor. According with court decision of 2015 29, 2017, the file shall be sent back to the prosecutor office whereas it has been ascertained that ordinance no. 586/P/2016 and the subsequent Act of Indictment of the Prosecutor's Office by Constanta Court of Appeal are subject to relative nullity and that the object and limits of judgment cannot be established.

On the other hand, it was admitted the request filed by Rominserv for the plea of unconstitutionality of certain provisions to be settled further by the Constitutional Court. The respective provisions concern the possibility to rectify the document instituting court proceedings during the preliminary chamber procedure.

On January 17, 2018, the Constanta court dismissed the prosecutor appeal against the decision issued in preliminary chamber and therefore approached the companies defense reasoning. The ruling is final and the file shall be sent back to the Prosecutor's Office of Constanta to resume the criminal prosecution activities within the limits of the legality provisions.

Considering the allegations, each company is facing, a maximum exposure of approximately RON 3.6 million.

Also, on May 25, 2017 Rompetrol Rafinare and Rominserv received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labor authority maintains the same considerations challenged by the companies. On August 16th, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labor Inspectorate (in cumulated amount of RON 0.028 million). The minutes of the fine have been appealed by both parties involved. On December 14, 2017, the court has requested to Rompetrol Rafinare and to the Territorial Labor Inspectorate to send written specifications regarding optional suspension of the case, pending resolution of the criminal file. The court suspended the case until the criminal file will be solved.

Other litigations

Vega residual pools remediation project

On November 15, 2017, Environmental National Guard (ENG) performed an inspection at Vega Refinery in order to determine the status of implementation of the Remedial Project.

Following the inspection, the Assessment Note no. 299 was issued, specifying that:

- on the same day the Company had to provide written information on the status of implementation of the Project;
- ENG would inform Prahova Environment Protection Agency (PEPA) immediately of Company's failure to comply with its obligations specified in the Environmental Integrated Authorization;
- a fine of 100,000 RON would be applied for Company's failure to send a notice to PEPA with respect to the commencement of the remedial works and to the identity of the contractor appointed in the Project (by submitting a copy of the contract concluded therewith), including for the failure to perform the works described in the remedial project and to comply with the dead-lines specified in relation thereto.

25. LEGAL MATTERS (continued)

On November 21, 2017, PEPA transmitted the Notice no. 149, informing that the Company must comply with the provisions of Integrated Environmental Authorization (EIA) until December 21, 2017 (related to the execution of residual pools remediation project), otherwise the EIA would be suspended until remedial of Company's failure, but, in any case, no longer than 6 (six) months, after which the EIA would be cancelled.

Against the documents received from environmental authorities, the company has brought actions in court as follows:

a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14, 2017. The ENG point of view was received on January 17th 2018;
b) preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017; the legal response time, according to the contentious law is 30 days;
c) suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; the first hearing was not set.
d)complaint against the fine received from ENG, submitted to the Ploiesti court on November 29, 2017; the next hearing was set on March 19th 2018.

On December 20, 2017 the Company submitted to the PEPA notice for initiation of the project works (phase I- construction) and on December 21, 2017 a correspondence with details regarding the company which will execute the construction works.

Up to this date no written confirmation was received from the environmental authorities regarding compliance of the company with the obligations mentioned in the EIA, related the execution of the remediation project.

26. COMMITMENTS

Environmental commitments

The principal activity of Rompetrol Rafinare SA (including Vega Refinery) of refinery petroleum products by its specificity might have direct or indirect effects on the environment in terms of effluents into land, water and air. The potential environmental effects of the Company's activities are monitored by specialized authorities and the management of the Company.

As of December 31, 2017 and 31 December 2016 Rompetrol Rafinare SA has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega refinery obligations, which have been provisioned.

At the end of March 2017 Rompetrol Rafinare SA has achieved the annual compliance with greenhouse gas (CO2) emission regulations by returning a number of CO2 certificates equivalent to the emission of 2016.

At the end of March 2018 Rompetrol Rafinare SA will buy back a total of 430,000 CO2 certificates from Act Financial Solutions BV (former ACT Commodities BV).

Other commitments

As of December 31, 2017, Rompetrol Rafinare S.A. contracted capital commitments for projects related to capital maintenance, authorizations, etc. in amount of USD 28.89 million (2016: USD 55.03 million).

26. COMMITMENTS (continued)

Sale and purchase commitments

As of December 31, 2017, Rompetrol Rafinare S.A. contracted purchase contracts for raw materials and utilities estimated to USD 2,466.58 million (2016: USD 2,102.8 million) and has commitments for sales of petroleum, petrochemicals products and utilities sales estimated to USD 3,016 million (2016: USD 4,110.4 million).

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS

A. Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of bank debt and shareholder loans (see Notes 11 and 12), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the "Statement of Changes in the Shareholders' Equity".

B. GEARING RATIO

The debt – to - equity ratio at the end of the year is as follows:

	31 December 2017	31 December 2016
Borrowings maturing in over one year	57,155,251	281,763,783
Own capitals	2,579,458,450	1,326,900,989
Gearing ratio	2.22%	21.23%

C. Financial instruments

The estimated fair values of these instruments approximate their carrying amounts.

	31 December 2017	31 December 2016
Financial assets		
Trade receivables and other receivables	1,490,364,904	898,058,749
Derivatives	-	22,980
Cash and bank accounts	22,863,280	45,891,549
TOTAL FINANCIAL ASSETS	**1,513,228,184**	**943,973,278**
Financial liabilities		
Short term borrowings from shareholders and related parties	683,141,317	1,065,970,431
Derivatives	515,760	-
Commercial liabilities and other liabilities	3,741,224,898	3,516,647,537
Short term loans	467,139,993	89,183,260
Long term borrowings from banks	-	281,763,783
Hybrid instrument - long-term portion	57,155,251	-
TOTAL FINANCIAL LIABILITIES	**4,949,177,220**	**4,953,565,011**

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

Trade and other receivables are at net recoverable value and the following categories are not considered as financial assets:

- Advances paid to the suppliers;
- VAT to be recovered
- Profit tax to be recovered
- Other taxes to be recovered

Similarly, for trade and other payables the following are not considered as financial liabilities:

- Advances paid from customers;
- Excises taxes
- Special fund for oil products (FSPP);
- VAT payable
- Profit tax payable
- Salary taxes payable
- Other taxes
- Deferred revenues

The estimated fair values of these instruments approximate their carrying amounts.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Company enters into derivative financial instruments with various counterparties. As at 31 December 2017, the marked to market value of derivative position is for financial instruments recognised at fair value.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

	31 December 2017	Level 1	Level 2	Level 3
Financial assets				
Trade receivables and other receivables	1,490,364,904	1,490,364,904	-	-
Cash and bank accounts	22,863,280	22,863,280	-	-
TOTAL FINANCIAL ASSETS	**1,513,228,184**	**1,513,228,184**	**-**	**-**
Financial liabilities				
Short term borrowings from shareholders and related parties	683,141,317	683,141,317	-	-
Derivatives	515,760	-	515,760	-
Commercial liabilities and other liabilities	3,741,224,898	3,741,224,898	-	-
Short term loans	467,139,993	467,139,993	-	-
Hybrid instrument - long-term portion	57,155,251	-	57,155,251	-
TOTAL FINANCIAL LIABILITIES	**4,949,177,220**	**4,891,506,209**	**57,671,011**	**-**

	31 December 2016	Level 1	Level 2	Level 3
Financial assets				
Trade receivables and other receivables	898,058,749	898,058,749	-	-
Derivatives	22,980	-	22,980	-
Cash and bank accounts	45,891,549	45,891,549	-	-
TOTAL FINANCIAL ASSETS	**943,973,278**	**943,950,298**	**22,980**	**-**
Financial liabilities				
Short term borrowings from shareholders and related parties	1,065,970,431	1,065,970,431	-	-
Commercial liabilities and other liabilities	3,516,647,537	3,516,647,537	-	-
Short term loans	89,183,260	89,183,260	-	-
Long term borrowings from banks	281,763,783	281,763,783	-	-
TOTAL FINANCIAL LIABILITIES	**4,953,565,011**	**4,953,565,011**	**-**	**-**

At 31 December 2017 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements

D. Derivative financial instruments

The Company uses different commodity derivatives as a part of price risk management in trading of crude oil and products. Generally the instruments are allocated to individual instruments.

It also performs hedging transactions regarding the risk of increasing USD interest rates.

Balance Sheet

	31 December 2017	31 December 2016
Derivative financial assets	-	22,980
Derivative financial liabilities	(515,760)	-
Net position - asset/(liability)	**(515,760)**	**22,980**

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

Income Statement

	31 December 2017	31 December 2016
Unrealized (gains)	-	-
Unrealized (losses)	-	-
Net position - (gain)/loss - in Cost of sales	-	-
Realized losses – net	38,266,959	(710,680)
Total position - loss/(gain) - in Cost of sales	**38,266,959**	**(710,680)**

E. Market risk

The Company's activities expose it to a variety of risks including the effects of: changes in the international quotations for crude oil and petroleum products, foreign currency exchange rates and interest rates. The Company's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Company .

F. Foreign Currency Risk Management

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

Crude oil imports, loans and a significant part of petroleum products are all denominated principally in US Dollars. Therefore, in respect of liabilities the Company is exposed to the risk of US dollar appreciation to the detriment of local currency, while in respect of foreign currency receivables, exposure arises in the context of depreciation of US dollar currency. Moreover, certain assets and liabilities are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Company Treasury is responsible for handling the Company foreign currency transactions.

G. Foreign currency sensitivity analysis

The Company is mainly exposed to the USD and EUR fluctuation risk.

The following table details the Company's sensitivity to a 5% increase and decrease in the RON exchange rate against the relevant foreign currencies. The sensitivity analysis includes only the foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in the exchange rates. A positive number below indicates an increase in profit and other equity here generated by a positive exchange rate course of 5%. For a 5% weakening of the RON against the main currencies, there would be a negative impact in the profit, with the same value.

	USD		EUR	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
RON				
5%	(162,621,086)	(158,280,065)	4,110,054	(78,907)
-5%	162,621,086	158,280,065	(4,110,054)	78,907

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

H. Interest rate risk management

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Company to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Company's borrowings, are provided in Note 12.

The sensitivity analyses below have been determined based on the financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If the interest rates had varied by + / - 50 points and all the other variables had remained constant, the net result of the Company as at 31 December 2017 would increase / decrease by RON 15.9 million (2016: increase / decrease by RON 15.9 million).

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

I. Liquidity risk

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual outdated payments, including interest payable until the end of the contracts for finance leasing and loans.

Balance as at 31 December 2017	Less than 1 month or current	<3 months	3-12 months	1-5 years	>5 years	Total
Commercial liabilities and other liabilities	3,577,911,814	163,141,849	-	-	171,235	**3,741,224,898**
Derivatives	515,760	-	-	-	-	**515,760**
Short term borrowings from related parties	529,730,217	11,294,827	142,211,100	-	-	**683,236,144**
Short term borrowings from banks	31,802,772	955,031	435,337,221	-	-	**468,095,024**
Long term borrowings from banks	-	4,700,554	1,566,851	-	-	**6,267,405**
Hybrid instrument - long-term portion	-	-	-	-	57,155,251	**57,155,251**
	4,139,960,563	**180,092,261**	**579,115,172**	**-**	**57,326,486**	**4,956,494,483**
Balance as at 31 December 2016						
Commercial liabilities and other liabilities	3,454,743,711	61,474,932	428,894	-	-	**3,516,647,537**
Short term borrowings from related parties	7,000,000	1,059,002,164	-	-	-	**1,066,002,164**
Short term borrowings from banks	-	478,195	89,820,854	-	-	**90,299,049**
Long term borrowings from banks	-	2,235,725	6,707,176	284,744,750	-	**293,687,651**
	3,461,743,711	**1,123,191,016**	**96,956,924**	**284,744,750**	**-**	**4,966,636,401**

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

J. Oil products and raw material price risk

The Company is affected by the volatility of crude oil, oil product and refinery margin prices.

The operating activities of the Company require ongoing purchase of crude oil to be used in its production as well as for the supply of petroleum products to its customers. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Company's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Company started on January 2011 to hedge commodities held by Rompetrol Rafinare.

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock) is hedged using future contracts traded on ICE Exchange and some OTC instruments for the secondary risks. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Company, hence price fluctuations will not affect the cash-flow. In 2012, the Company started a few transactions of refinery margin hedge.

Risk management activities are separated into physical (purchase of raw materials and sales to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Company sells or buys the equivalent number of future contracts. This financial trade is done only to hedge the risk of the price risk and not to gain from the trading of these instruments.

K. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or purchase contracts, which leads to a financial loss. The Company is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

Trade receivables

Outstanding customer receivables are regularly monitored. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of aging.

Financial instruments and bank deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury in accordance with the Company's policy.

28. SUBSEQUENT EVENTS

Rompetrol Rafinare S.A credit facility in amount of RON 7 million granted by Rompetrol Well Services S.A was prolonged until April 14, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was prolonged until April 10, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was prolonged until May 3, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 11.2 million granted by Rompetrol Well Services S.A was prolonged until May 28, 2018.

At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates (in amount of EUR 2.6 million) from Act Financial Solutions BV (former ACT Commodities BV).

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Building a better working world

RAPORTUL AUDITORULUI INDEPENDENT
INDEPENDENT AUDITOR'S REPORT

Catre actionarii Rompetrol Rafinare S.A.
To the Shareholders of Rompetrol Rafinare S.A

Raport asupra auditului situatiilor financiare
Report on the Audit of the Financial Statements

Opinia
Opinion

Am auditat situatiile financiare ale societatii Rompetrol Rafinare S.A. cu sediul social in Bulevardul Navodari, nr. 215, Pavilion Administrativ, 907500 – Navodari, Romania, identificata prin codul unic de inregistrare fiscala RO1860712, care cuprind situatia pozitiei financiare la data de 31 decembrie 2017, contul de profit si pierdere, alte elemente ale rezultatului global, situatia modificarilor capitalului propriu si situatia fluxurilor de trezorerie pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative.
We have audited the financial statements of Rompetrol Rafinare S.A. with official head office in 215, Navodari Boulevard, Administrative Pavilion, 907500 – Navodari, Romania, identified by sole fiscal registration number RO1860712, which comprise the statement of financial position as at December 31, 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a Societatii la data de 31 decembrie 2017, ca si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare.
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Bazele opiniei
Basis for opinion

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA), Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului din 16 aprilie 2014 („Regulamentul (UE) nr. 537/2014") si Legii nr.162 /2017 („Legea 162/2017"). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru.
Suntem independenti fata de Societate conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA), conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania, inclusiv Regulamentul (UE) nr. 537/2014 si Legea 162/2017, si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra.
We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Aspecte cheie de audit
Key audit matters

Aspectele cheie de audit sunt acele aspecte care, in baza rationamentului nostru profesional, au avut cea mai mare importanta pentru auditul situatiilor financiare din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare in ansamblu, si in formarea opiniei noastre asupra acestora, si nu emitem o opinie separata cu privire la aceste aspecte cheie.
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Pentru fiecare aspect de mai jos, am prezentat in acel context o descriere a modului in care auditul nostru a abordat respectivul aspect.
For each matter below, our description of how our audit addressed the matter is provided in that context.

Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru, inclusiv in legatura cu aceste aspecte cheie. In consecinta, auditul nostru a inclus efectuarea procedurilor proiectate sa raspunda la evaluarea noastra cu privire la riscul de erori semnificative in cadrul situatiilor financiare. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastra de audit asupra situatiilor financiare anexate.
We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Aspecte cheie de audit	Modul in care auditul nostru a abordat aspectul cheie de audit
Testarea pentru depreciere a imobilizarilor corporale si investitiilor in filiale Informatiile prezentate de Rompetrol Rafinare cu privire la imobilizarile corporale si investitiile in filiale, inclusiv cu privire la deprecierea aferenta, sunt incluse in nota 5 si respectiv nota 6.	
Imobilizarile corporale si investitiile in filiale sunt semnificative pentru auditul nostru, avand in vedere importanta pozitiei bilantiere de 3.680 milioane RON si respectiv 1.629 milioane RON la 31 decembrie 2017. De asemenea, evaluarea conducerii cu privire la indicatorii de depreciere a unitatilor generatoare de numerar (UGN) si a investitiilor implica analiza unor surse de informatii diverse, inclusiv a factorilor cu privire la mediul economic si a factorilor specifici industriei. In plus, in 2017 Societatea si-a schimbat politica contabila pentru evaluarea cladirilor, de la modelul pe baza de cost la modelul bazat pe reevaluare, care a condus la o crestere neta in valoarea contabila a cladirilor de 695 milioane RON.	Procedurile noastre de audit au inclus, printre altele: · am analizat si evaluat judecata conducerii cu privire la existenta indicatorilor de depreciere pentru imobilizari corporale si respectiv investitiile in filiale, luand in considerare, de asemenea, daca testul de depreciere a acoperit toate UGN /activele individuale semnificative pentru care au existat indicatori de depreciere la sfarsitul perioadei de raportare; · am comparat volumele de productie/vanzari si costurile actuale in 2017 ale fiecarei UGN cu volumele de productie/vanzari si costuri estimate in bugetul pregatit pentru 2017; · am comparat preturile viitoare pe termen scurt si lung pentru titei si gaze si marjele produselor folosite in bugetele Societatii cu previziunile analistilor si cele adoptate

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Industria de petrol si gaze a trecut prin schimbari semnificative ca urmare a declinului preturilor petrolului si gazelor incepand cu ultima parte a anului 2014, ceea ce a condus la inchiderea unor capacitati de productie si amanarea investitiilor de catre unii jucatori din industrie. La 31 decembrie 2017 conducerea a identificat indicatori de depreciere si a efectuat testari pentru depreciere separate cu privire la imobilizarile corporale ale celor doua UGN ale Societatii (Rafinare, cu o valoare contabila neta a imobilizarilor corporale de 3.170 milioane RON si Petrochimie cu o valoare contabila neta o imobilizarilor corporale de 337 milioane RON), rezultatul fiind absenta necesitatii recunoastereii unei pierderi din depreciere. De asemenea, a fost efectuata o analiza a indicatorilor de depreciere pentru investitiile in filialele Societatii (Rompetrol Downstream S.R.L, Rompetrol Petrochemcials S.R.L., Rom Oil S.R.L., Rompetrol Logistics S.R.L., Rompetrol Quality Control S.R.L.) Aceasta testare pentru depreciere este semnificativa pentru auditul nostru deoarece procesul de evaluare este complex, implica rationamente semnificative ale conducerii si se bazeaza pe ipoteze care sunt afectate de conditiile de piata viitoare din Romania si tarile invecinate.	de alte societati internationale din domeniul petrolier; · am evaluat acuratetea istorica a bugetelor si estimarilor conducerii prin compararea lor cu performanta efectiv realizata si cu cea a anului anterior; · am implicat specialistii nostri evaluatori interni pentru a ne asista la evaluarea ipotezelor-cheie si a metodologiilor aplicate de Societate pentru testarea de depreciere a imobilizarilor corporale. Evaluarea noastra s-a axat pe estimarea ratei de actualizare folosite, pe analiza privind senzitivitatea valorilor recuperabile ale UGN la modificarile ipotezelor semnificative, precum si pe ipotezele-cheie aplicate la estimarea fluxurilor de numerar viitoare pentru UGN respective (cum ar fi preturile de vanzare preconizate, volumele de productie/vanzare, marjele produselor, modificarile capitalului de lucru, etc.), analizand conformitatea acestora cu mediul economic general si cel specific industriei, cu informatiile de piata relevante disponibile si cu planurile de afaceri ale Societatii; · am testat acuratetea matematica a modelului; Ca parte a procedurilor noastre de audit specifice cu privire la reevaluarea cladirilor, am obtinut raportul de reevaluare emis de expertul evaluator extern angajat de Societate si am efectuat urmatoarele proceduri: · am evaluat independenta si competenta expertului evaluator extern; · am implicat specialistii nostri evaluatori interni pentru a ne asista in aprecierea metodologiilor de evaluare folosite si in testarea principalelor ipoteze (incluzand factorii de indexare folositi in determinarea costului de inlocuire folosind metoda indirecta/de indexare, testand durata de viata ramasa si cea totala pentru activele evaluate pe categorii,

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	estimarea factorilor de depreciere specifici pentru activele nefolosite sau uzate, testand informatia de piata acolo unde este relevant) prin comparatie cu trendurile istorice si informatii externe; · am testat, pe baza unui esantion, acuratetea matematica a calculelor cheie observate in cadrul raportului de evaluare pregatit de evaluatorul independent. Am evaluat de asemenea caracterul adecvat al informatiilor prezentate de Rompetrol Rafinare cu privire la imobilizarile corporale si investitii in filiale, incluzand deprecierea aferenta.
Recuperabilitatea creantei privind impozitul pe profit amanat Informatiile prezentate de Rompetrol Rafinare cu privire la creanta privind impozitul pe profitul amanat sunt incluse in nota 20.	
Dupa cum este prezentat in nota 20 la situatiile financiare, la 31 decembrie 2017 Societatea a recunoscut o creanta de impozit pe profit amanat de 157 milioane RON, rezultand din pierderi fiscale reportate. Creanta privind impozitul pe profit amanat are o importanta semnificativa pentru auditul nostru, avand in vedere importanta pozitiei bilantiere la 31 decembrie 2017 si faptul ca, pentru evaluarea recuperabilitatii soldului, procesul de estimare necesita rationamente ale conducerii, in special raportat la informatiile privind suficienta veniturilor impozabile previzionate, pe baza carora pierderile fiscale pot fi folosite, preconizandu-se ca unele dintre acestea vor fi generate peste mai multi ani in viitor.	Procedurile noastre de audit s-au axat pe evaluarea ipotezelor-cheie ale conducerii cu privire la recuperabilitatea creantei privind impozitul pe profit amanat, cum ar fi previziuni care stau la baza recunoasterii activului, inclusiv sumarul datelor de expirare a pierderilor fiscale. Am evaluat conformitatea acestor previziuni cu planurile de afaceri pe termen lung aplicate de conducere pentru gestionarea si monitorizarea performantei activitatii. Specialistii nostri interni in aspecte fiscale au fost implicati, daca a fost cazul, in procedurile noastre de audit in domeniul impozitarii curente si efectul oricarei evaluari relevante a fost luat in considerare in cadrul evaluarii noastre cu privire la proiectiile privind profitul impozabil. De asemenea, am evaluat caracterul adecvat al informatiilor prezentate de Societate cu privire la creanta privind impozitul pe profit amanat.

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Completitudinea si caracterul adecvat al provizioanelor pentru litigii Informatiile prezentate de Rompetrol Rafinare cu privire la litigii sunt incluse in nota 25.	
Societatea este implicata in diferite litigii semnificative, inclusiv in legatura cu proceduri de reglementare si/sau guvernamentale, precum si investigatii ale autoritatilor fiscale care sunt prezentate la nota 25 din situatiile financiare. Aceaste aspecte sunt importante pentru auditul nostru datorita incertitudinilor inerente cu privire la rezultatul final al acestor litigii, complexitatea cazurilor si rationamentul semnificativ aplicat de conducere in estimarea rezultatului final al acestor evaluari si al expunerilor (ex. daca o datorie ar trebui recunoscuta sau o datorie contingenta ar trebui prezentata si daca o potentiala iesire de numerar poate fi estimata in mod credibil). Datorita importantei si complexitatii acestor litigii, rezultate nefavorabile ar putea avea un potential impact asupra performantei financiare si pozitiei financiare a Societatii.	Procedurile noastre de audit au inclus, printre altele, obtinerea de confirmari de la avocatii externi ai Societatii care ofera asistenta cu privire la aceste cazuri precum si documentatie suport de la departamentul juridic intern al Societatii, cu privire la stadiul acestor litigii. Am examinat procesele verbale ale Consiliului de Administratie si am efectuat intalniri periodice cu conducerea pentru a discuta si intelege evolutia acestor actiuni legale, ipotezele si rationamentul conducerii cu privire la aceste aspecte. Am evaluat daca opiniile avocatilor externi si a departamentului juridic intern sunt in concordanta cu ipotezele si estimarile aplicate de conducere in ceea ce priveste recunoasterea si evaluarea provizioanelor sau evaluarea si prezentarea datoriilor contingente cu privire la aceste aspecte, pe baza evenimentelor si circumstantelor existente. Specialistii nostri interni au fost implicati, daca a fost cazul, pentru a ne asista in a analiza cazurile legale si ipotezele efectuate de conducere. De asemenea, am evaluat caracterul adecvat al informatiilor prezentate cu privire la provizioane si datorii contingente rezultate din aceste actiuni legale.
Key audit matter	How our audit addressed the key audit matter
Impairment testing of property, plant and equipment and investments in subsidiaries *Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment, are included in Note 5 and Note 6 respectively.*	
Property, plant and equipment (PPE) and investments in subsidiaries are significant to our audit because of the magnitude of the balance sheet position of RON 3,680 million and RON 1,629 million, respectively, as at 31 December	*Our audit procedures included, among others:* · *we analysed and evaluated the management's assessment of the existence of impairment indicators, for property, plant and equipment and*

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2017. Furthermore, the management's assessment of impairment indicators for cash generating units (CGUs) and investments involves consideration of various sources of information, including factors related to the economic environment and industry specific factors. In addition, in 2017 the Company changed its accounting policy for measurement of buildings, from cost model to revaluation model, which led to a net increase in the carrying value of buildings of RON 695 million. *The oil and gas industry went through significant changes following a decline in oil and gas prices since late 2014, which resulted in capacity shutdowns and deferred investments by some players in the industry. As of 31 December 2017 the management has identified impairment indicators and has performed separate impairment testing in respect of the property, plant and equipment of the Company's two CGUs (Refining, with a PPE carrying value of RON 3,170 million and Petrochemicals with a PPE carrying value of RON 337 million),* resulting in no impairment loss being necessary to be recognised. *Furthermore, an assessment of impairment indicators has been made for the investments in the Company's subsidiaries (Rompetrol Downstream S.R.L, Rompetrol Petrochemcials S.R.L., Rom Oil S.R.L., Rompetrol Logistics S.R.L., Rompetrol Quality Control S.R.L)* *The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in Romania and neighbouring countries.*	*investments in subsidiaries, respectively, considering also whether the impairment testing covered all significant cash generating units/individual assets for which impairment indicators existed at the end of the reporting period;* · *we compared the actual production/sales volumes and costs in 2017 of each CGU with the production/sales volumes and costs estimates in the budget prepared in 2017;* · *we compared the future short and long term oil and gas prices and product margins used in the Company's budgets to consensus analyst's forecasts and those adopted by other international oil companies;* · *we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;* · *we involved our internal valuation specialists to assist us in evaluating the key assumptions and the methodologies used by the Company for the impairment testing of property, plant and equipment. Our evaluation was focused on the discount rate estimate, on the sensitivity analysis of the CGUs' recoverable amounts to changes in the significant assumptions, as well as on the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected sales prices, production/sales volumes, product margins, working capital changes, etc.) by analysing their consistency with the general and industry-specific economic environment, relevant available market information and the business plans of the Company;* · *we tested the mathematical accuracy of the models;*

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	As part of our specific audit procedures on revaluation of buildings we obtained the valuation report issued by the external valuation expert engaged by the Company and performed the following procedures: · *assessed the independence and the competence of the external valuation expert;* · *involved our internal valuation specialists to assist us in the evaluation of the valuation methodologies used and testing the main assumptions (including indexation factors used in deriving replacement cost using the indirect/indexation method, testing the remaining and total useful lives assumptions for the valued assets by classes, estimation of specific depreciation factors for idle or obsolete assets, testing market based inputs where relevant) against historical trends and external data;* · *tested on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraiser.* *Furthermore we assessed the adequacy of Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment.*
Recoverability of deferred tax assets *Rompetrol Rafinare's disclosures about deferred tax assets are included in Note 20.*	
As presented in Note 20 to the financial statements, as at 31 December 2017, the Company recognized a net deferred tax asset of RON 157 million, resulting from tax losses carried forward. *Deferred tax assets are significant to our audit because of the magnitude of the balance sheet position as at 31 December 2017 and the fact that the estimation process requires management judgement to assess the*	*Our audit procedures focused on assessing the key management assumptions for the deferred tax asset recoverability, such as forecasts which underpin the asset recognition, including summaries of tax losses expiry dates. We evaluated the consistency of these forecasts with the long term business plans used by management to manage and monitor the performance of the business.*

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recoverability of the balance, in particular by reference to evidence for sufficient forecasted taxable income against which tax losses can be utilised, some of which are expected to arise a number of years in the future.	*Our internal tax specialists were involved, as appropriate, in our audit procedures in the current taxation area and the effect of any relevant evaluations was taken into consideration in our assessment of the taxable profit projections.* *Furthermore, we assessed the adequacy of the Company's disclosures regarding deferred tax assets.*
Completeness and appropriateness of provisions for litigations Rompetrol Rafinare's disclosures about litigations are included in Note 25.	
The Company is involved in various significant litigations, including in relation to regulatory and / or governmental proceedings, as well as investigations by tax authorities which are presented in Note 25 to the financial statements. This area is significant to our audit due to the inherent uncertainties over the final outcome of these litigations, complexity of the cases and the significant judgement applied by the management in estimating the final outcome of such assessments and exposures (i.e. whether a liability should be recognized or a contingency should be disclosed and whether the potential outflows can be reliably estimated). *Due to the significance and complexity of these litigations, adverse outcomes could potentially impact the Company's reported financial performance and financial position.*	*Our audit procedures included, among others, obtaining legal confirmations from the Company's external lawyers advising on these matters and supporting documentation from the Company's internal legal counsel regarding the status of these litigations. We have inspected the minutes of the Board of Directors' meetings and held periodic meetings with management to discuss and understand the developments in legal proceedings and the management assumptions and judgement in respect of these matters.* *We assessed whether the opinions of external lawyers and internal legal counsel are consistent with the assumptions and estimates applied by management regarding recognition and measurement of provisions or measurement and disclosure of contingent liabilities in respect of these matters, based on the facts and circumstances available. Our internal specialists were involved, where appropriate, to assist us to analyse the legal cases and the assumptions made by management.* *We further evaluated the adequacy of disclosures regarding provisions recognised and contingencies resulting from legal proceedings.*

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Alte informatii
Other information

Alte informatii includ Raportul administratorilor, dar nu includ situatiile financiare si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.
The other information comprises the Administrators' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Opinia noastra de audit asupra situatiilor financiare nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.
Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In legatura cu auditul efectuat de noi asupra situatiilor financiare, responsabilitatea noastra este de a citi aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare sau cunostintele pe care le-am obtinut in urma auditului, sau daca acestea par sa includa erori semnificative. Daca, in baza activitatii desfasurate, ajungem la concluzia ca exista erori semnificative cu privire la aceste alte informatii, noi trebuie sa raportam acest lucru. Nu avem nimic de raportat in acest sens.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare
Responsibilities of Management and Those Charged with Governance for the Financial Statements

Conducerea Societatii are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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La intocmirea situatiilor financiare, conducerea este responsabila sa evalueze abilitatea Societatii de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze Societatea sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Societatii.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsabilitatile auditorului pentru auditul situatiilor financiare
Auditor's Responsibilities for the Audit of the Financial Statements

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor luate in baza acestor situatii financiare.
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.
- *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control*.

- Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Societatii.
- *Obtain an understanding of internal control relevant to the audit 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 Company's internal control*.

- Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management*.

- Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoieli semnificative privind capacitatea Societatii de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Societatea sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.

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- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern*.

- Evaluam prezentarea, structura si continutul general al situatiilor financiare, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation*.

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatarile semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

De asemenea, prezentam persoanelor responsabile cu guvernanta o declaratie cu privire la conformitatea noastra cu cerintele etice privind independenta si le comunicam toate relatiile si alte aspecte care pot fi considerate, in mod rezonabil, ca ar putea sa ne afecteze independenta si, unde este cazul, masurile de siguranta aferente.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Dintre aspectele pe care le comunicam persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanta in cadrul auditului asupra situatiilor financiare din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Raport cu privire la alte cerinte legale si de reglementare
Report on Other Legal and Regulatory Requirements

Raportare asupra unor informatii, altele decat situatiile financiare si raportul nostru de audit asupra acestora
Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii", referitor la Raportul administratorilor, noi am citit Raportul administratorilor si raportam urmatoarele:

a) in Raportul administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare la data de 31 decembrie 2017, atasate;
b) Raportul administratorilor, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, Anexa 1, punctele 15-19;
c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare intocmite la data de 31 decembrie 2017 cu privire la Societate si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in Raportul administratorilor.

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Administrators' Report, we have read the Administrators' Report and report that:

a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2017;
b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2017, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Alte cerinte privind cuprinsul raportului de audit conform Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului
Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Numirea si aprobarea auditorului
Appointment and Approval of Auditor

Am fost numiti auditori ai Societatii de catre Adunarea Generala a Actionarilor la data de 13 aprilie 2017 pentru a audita situatiile financiare ale exercitiului financiar incheiat la 31 decembrie 2017. Durata totala de misiune continua, inclusiv reinnoirile (prelungirea perioadei pentru care am fost numiti initial) si renumirile anterioare drept auditori a fost de 10 ani, acoperind exercitiile financiare incheiate la 31 decembrie 2008 pana la 31 decembrie 2017.
We were appointed as auditors of the Company by the General Meeting of Shareholders on April 13, 2017 to audit the financial statements for the financial year end December 31, 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 10 years, covering the financial periods end December 31, 2008 till December 31, 2017.

Consecventa cu raportul suplimentar adresat Comitetului de Audit
Consistency with Additional Report to the Audit Committee

Opinia noastra de audit asupra situatiilor financiare exprimata in acest raport este in concordanta cu raportul suplimentar adresat Comitetului de Audit al Societatii, pe care l-am emis in aceeasi data in care am emis si acest raport.
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on the same date as the issue date of this report.

Servicii non-audit
Provision of Non-audit Services

Nu am furnizat Societatii servicii non-audit interzise mentionate la articolul 5 alineatul (1) din Regulamentul (UE) nr. 537/2014 al Parlamentului European si al Consiliului si ramanem independenti fata de Societate pe durata auditului.

Nu am furnizat Societatii si entitatilor controlate de aceasta alte servicii decat cele de audit statutar si cele prezentate in raportul anual si in situatiile financiare.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.
In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Company, and its controlled undertakings.

In numele,
On behalf of,

Ernst & Young Assurance Services SRL
Bd. Ion Mihalache 15-17, etaj 21, Bucuresti, Romania
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 77/15 august 2001
Registered with the Chamber of Financial Auditors in Romania
Nr. 77/15 August 2001

Nume Auditor / Partener: Alexandru Lupea
Name of the Auditor/ Partner: Alexandru Lupea
Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 273 /5 ianuarie 2001
Registered with the Chamber of Financial Auditors in Romania
No. 273 / 5 January 2001

Bucuresti, Romania
27 martie 2018
Bucharest, Romania
27 March 2018

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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ANNUAL REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE FINANCIAL YEAR 2017

2017 figures include consolidated financial statements in accordance with International Financial Reporting Standards („IFRS"). Consolidated financial statements of Rompetrol Rafinare Group include the results of the parent company Rompetrol Rafinare and its subsidiaries Rompetrol Petrochemicals S.R.L., Rom Oil S.A., Rompetrol Downstream S.R.L., Rompetrol Quality Control S.R.L and Rompetrol Logistics S.R.L. (with its subsidiary Rompetrol Gas S.R.L.).

COMPANY HISTORY

Rompetrol Rafinare owns the main refining facility of the Rompetrol Group (renamed "KMG International" in 2014) located in Navodari, Constanta. Starting with December 1, 2007, the company also operates Vega refinery, located in Ploiesti. "Complexul Petrochimic Midia Navodari" (the former name of Rompetrol Rafinare S.A.) was part of the large oil refining plants which appeared after 1975. The plant was designed between 1975 and 1977. In 1991, Combinatul Petrochimic Midia Navodari became a joint stock company, by taking over all the assets of the former unit. In February 2001, as a result of the privatization of the company by the State Ownership Fund, KMG International NV became the main shareholder. In 2003, by Decision no. 50640 of Trade Registry Directorate, based on the General Shareholders' Meeting as of February 20, 2003, the company was renamed S.C. Rompetrol Rafinare S.A. The company processes a variety of crude oils with different content of sulfur, reaching an average percent of 1.26% sulfur. The crude oil feeding (more than 98%) is carried out mainly through the marine terminal built by the KMG International Group, close to Petromidia Refinery, and the rest is carried out through Oil Terminal facilities in Constanta port. The products obtained can be delivered by railway, road and by sea.

At the end of 2008 the company also finalized the operations for the 350% expansion of the transit capacity for finished products through Midia harbor, by building two new loading and offloading berths, Berth 9B and Berth 9C.

In 2012 Rompetrol Rafinare SA completed the extensive process of modernization that allowed expanding refining capacity to 5 million tonnes/year and efficient production and focus on the petroleum products required by the market.

Following the significant investments made by the KMG International Group and KazMunayGas in modernizing and increasing the processing capacity, optimization of production processes and increase energy efficiency, Rompetrol Rafinare has recorded historical records on the operational side since 2014.

The improved operating results and achievement in 2017 by the Petromidia and Vega refineries of historical processing records were sustained by completion in 2012 of the extensive modernization program and increase in the processing capacity to 5 million tonnes per year, and technological work carried out both in turnaround during March-April 2013 and in also in general turnaround (conducted in October 2015) that takes place every five years.

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COMPANY SHARES AND LISTING

Since April 7, 2004, the Company's shares are traded on the regulated market operated by the Bucharest Stock Exchange SA ("BVB").

The Company's shares are traded on BVB Standard category. On 31.12.2017, the total number of shares issued by the Issuer is 44,109,205,726, representing a total share capital of 4,410,920,572.6 lei. The Company's shares are common, nominative, dematerialized, and the shareholder's register is held by the DEPOZITARUL CENTRAL S.A. Bucuresti.

According to the law and the Articles of Incorporation, each share held entitles the holders to one vote at the General Meeting of Shareholders, the right to vote and to be elected in the management of a company, the right to participate in the distribution of benefits and social asset at the dissolution of the company and other rights established by law. Ownership and any other actions of its attributes are given under capital market law. Regarding the shares, the transfer is not restricted, shall be in accordance with applicable laws and the Articles of Association of the Company.

The symbols of Rompetrol Rafinare shares:	
The Bucharest Stock Exchange	RRC
Bloomberg	RRC RO

The Rompetrol Rafinare shares	2015	2016	2017
Number of shares	44,109,205,726	44,109,205,726	44,109,205,726
Stock exchange capitalization, mil. lei[1]	2,170.173	2,514.225	2,346.61
Stock exchange capitalization, mil. Euro[2]	479.225	553.66	503.60
Maximum price, lei[3]	0.0492	0.0598	0.06
Minimum price, lei[4]	0.0344	0.04	0.0496
Price at the end of the year, lei	0.0492	0.057	0.0532

[1] *Calculated on the basis of the price of the share on the last transaction day of the year under consideration, respectively on December 29th, 2017;*
[2] *Calculated at the euro exchange rate (4.6597) of the last trading session of the year under consideration, respectively December 29th, 2017*
[3] *Recorded on January 9th, 2017.*
[4] *Recorded on July10 th , 2017.*

English translation is for information purposes only. Romanian language text is the official text for submission.

Trade Registry No: J 13/534/1991
Fiscal Identification No: RO1860712
IBAN: RO22BACX0000000030500310
UniCredit Tiriac Bank – Constanta

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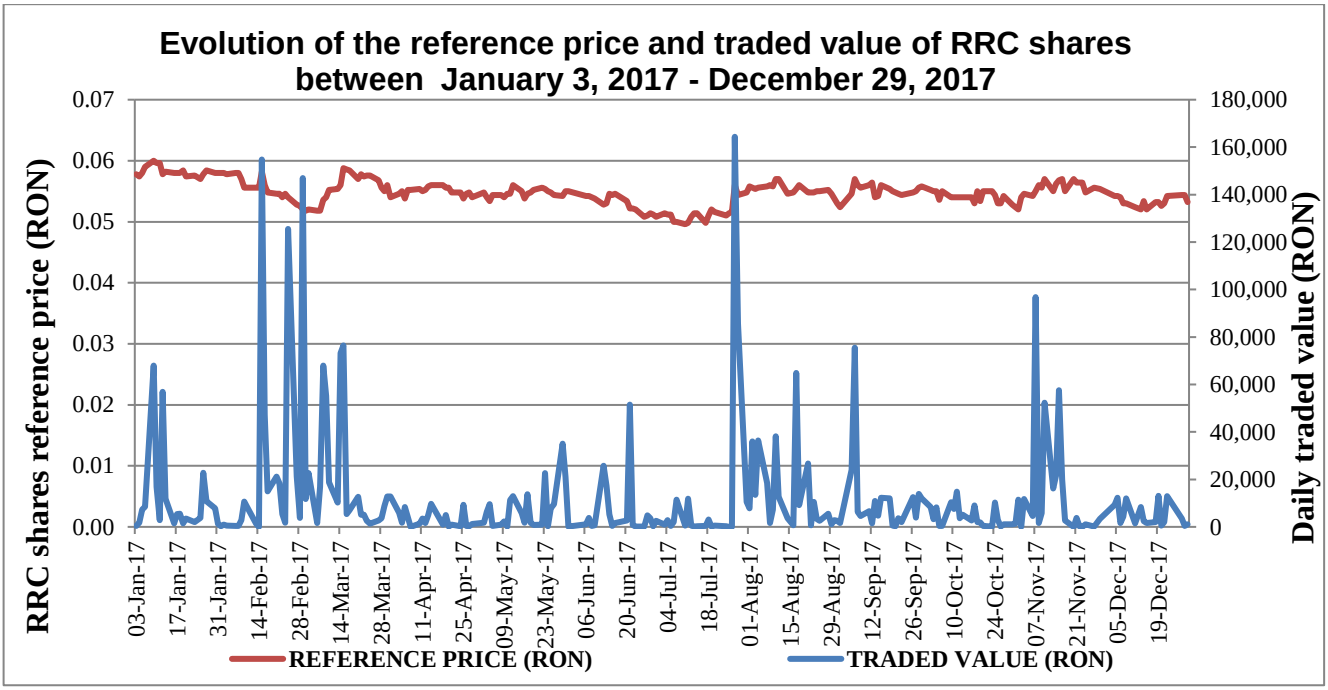

Weighted Average Price (WAP) of RRC shares during 2017 = 0.054990589 lei/share;

The volume traded in March represents 19.94% of the entire volume traded in 2017 (total traded volume in 2017 = 2,918,649lei)

Rompetrol Rafinare Shareholders Structure

In the period under review there were no changes likely to influence the share capital of the Company.

According to the Shareholders' register consolidated on December 31, 2017, the structure of the Company's significant shareholders is presented in the following graph:

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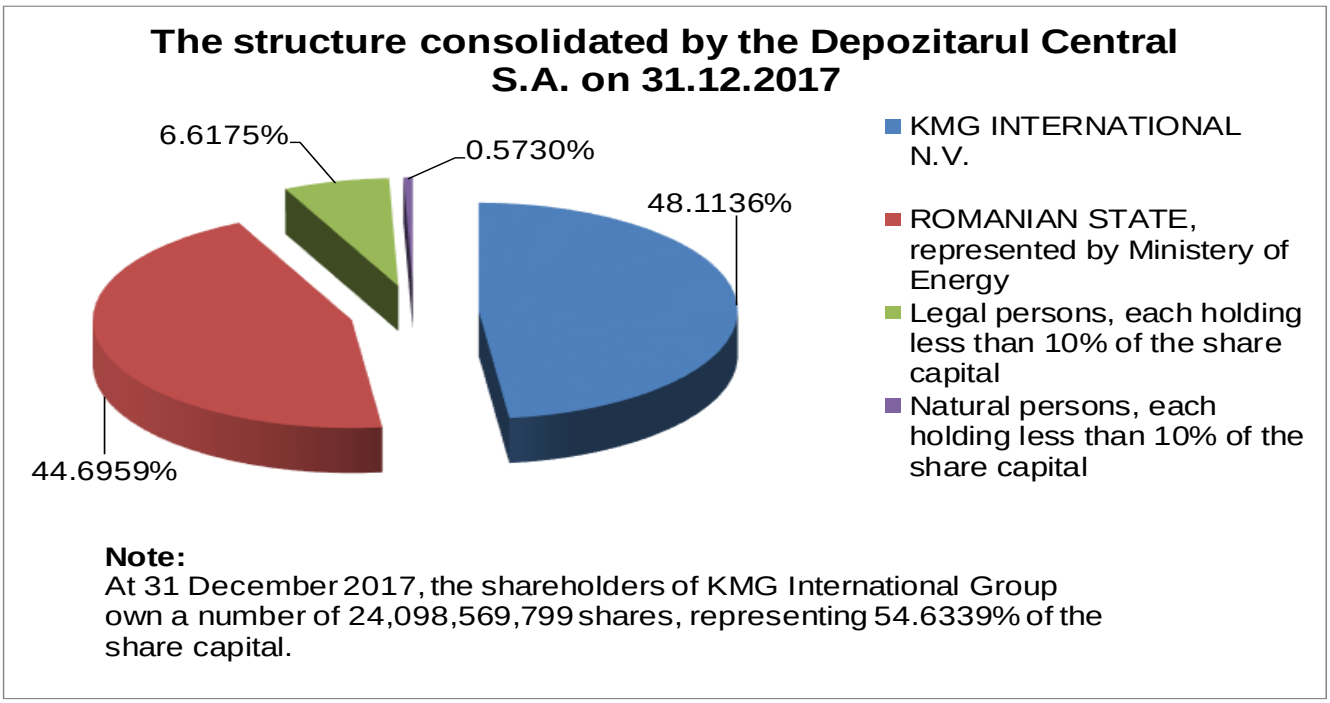

Company's own shares

At 31.12.2017, ROMPETROL RAFINARE S.A. held a number of own shares of 6,134,701 having a nominal value of RON 0.10 per share and a total value of RON 613,470.10, which represents 0.0139% of Company's share capital.

The Company did not trade (by acquiring or selling) its own shares during 2017.

The number and nominal value of the shares issued by the parent company, owned by subsidiaries.

In 2017, the subsidiaries of society have not held shares issued by Rompetrol Rafinare.

The financial calendar proposed for the year 2018

Financial Calendar	Date
Presentation of the preliminary, unaudited, individual and consolidated results of the year 2017and fourth Quarter of 2017	*February 15th, 2018*
Ordinary General Assembly of Shareholders, to approve the annual financial results of year 2017	*April 27th/ April 30th, 2018*
Publication of the 2017 Annual Report (i.e. publication of the financial results of 2017)	*April 30th, 2018*
Presentation of the results recorded during the first quarter of 2018	*May 15th, 2018*
Presentation of the results recorded during the first semester and second quarter of 2018	*August 14th, 2018*
Presentation of the results recorded during the third quarter of 2016 and between January – September 2018	*November 14th, 2018*
Telephone conferences and / or meetings with investors and financial analysts, as appropriate	*On request*

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Corporate Governance

Issuers whose securities are admitted to trading on a regulated market are required to include compliance or non-compliance with the Declaration on the Code of Corporate Governance ("Comply or Explain" Declaration). Therefore, all relevant information relating to corporate governance practices were included in the Corporate Governance section in the "Corporate Governance Statement" relating to the Annual Report 2017.

Investor Relations Contact

Important information and news of interest to the shareholders, analysts and investors, regarding Company's activity, are available on the web- www.rompetrol-rafinare.ro, in the Investor Relations section.

The annual, semiannual and quarterly reports are made available to shareholders upon request. Requests may be submitted electronically, via e-mail at: office.rafinare@rompetrol.com.

STRATEGY

The Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy is reaffirming the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group. KMG International relies on four synergic pillars:

- A modern, reliable and highly performing asset base
- Capable management to drive improved performance
- Long-term strategy that links the company's strengths with opportunities on the market
- Adequate access to financial markets to fund strategy implementation

The sound strategy has allowed the Group to significantly improve financial and operational results during 2012 and 2016 period:

- Petromidia refinery achieved record production volumes, well above the designed capacity, and improved technical performance;
- Retail entities sales volumes increased;
- Consolidated financial net result reached positive levels in the last three years.

OUTLOOK FOR 2018

Market environment: For 2018 the Group budgeted a crude average price of 55 $/bbl. From computation of the difference between main petroleum products quotations and Urals quotation, weighted at 2018 approved budget production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur) results a Market refining margin valuated at 48.4 $/tonne.

In 2018, it is expected a positive growth trend in terms of gasoline and diesel demand for Group's key markets of 0.53% (annual average for Romania and Near Abroad).

Group operations: The Group will continue to carry on the operational initiatives which were identified and put in motion starting 2016, such as: Refining planning and production optimization, energy efficiency and organizational effectiveness, increase of non-fuel profitability, Asian Market trading profitability increase.

These operational initiatives have as main purpose the improvement of the operational results with minimum investment cost.

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From the production perspective, in 2018, the Group has the following assumptions in terms of budget:

- ✓ Total feedstock planned to be processed in 2018 estimated at 5.45 million tonnes or 16.4 thousand tonnes/day
- ✓ White products yield of 85.6%, -1% below actual 2017 mainly from different structure of feedstock (crude oil and SRGO).
- ✓ Increase in processing cost by 1.7 USD/tonne compared with 2017, mainly due to utilities expenses caused by higher utilities tariffs and negative impact from the exchange rate.

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected reach higher levels than in 2017.

FINANCIAL HIGHLIGHTS – CONSOLIDATED

	2017	2016	%	2017	2016	%
Financial	**USD**	**USD**		**RON**	**RON**	
Gross Revenues	4,151,088,337	3,566,449,386	16%	16,153,960,263	13,878,837,787	16%
Net Revenues	3,093,007,328	2,440,510,028	27%	12,036,438,017	9,497,244,775	27%
EBITDA	210,727,761	186,548,315	13%	820,047,082	725,952,768	13%
EBITDA margin	6.8%	7.6%		6.8%	7.6%	
EBIT	57,540,694	92,457,898	-38%	223,919,608	359,799,909	-38%
Net profit / (loss)	20,705,457	57,145,367	-64%	80,575,287	222,381,195	-64%
Net Profit / (loss) margin	0.7%	2.3%		0.7%	2.3%	

The results have been supported by an increase in the volume of processed raw materials and of the petroleum products sold in Romania and in the region, as well as by optimizing and increasing the efficiency of the processing, logistics and distribution costs, but also by implementing programs for transformation of current activities to reduce operational expenses and increase profitability.

Rompetrol Rafinare consolidated gross revenues reached over USD 4.151 billion in 2017. The increase of this indicator by 16% as against 2016 was influenced by the volatility of international quotations for petroleum products and by the increase in the volume of products sold compared to similar periods last year.

In 2017 the RRC net result is negatively affected by one off transaction in respect of changes in accounting policies in respect of non-current assets, from cost model to revaluation model.

The change from cost to revaluation model will provide a more transparent and up-to-date picture of the value of the RRC Group assets.

The consolidated accounts are analyzed in in the following sections for each business unit.

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ECONOMIC ENVIRONMENT

		2017	2016	%
Brent Dated	USD/bbl	54	44	24%
Ural Med	USD/bbl	53	42	26%
Brent-Ural Differential	USD/bbl	0.96	1.58	-40%
Premium Unleaded 10 ppm FOB Med	USD/tonne	548	462	19%
Diesel ULSD 10 ppm FOB Med	USD/tonne	490	395	24%
RON/USD Average exchange rate		4.05	4.06	0%
RON/USD Closing exchange rate		3.89	4.30	-10%
RON/EURO Average exchange rate		4.57	4.49	2%
RON/EURO Closing exchange rate		4.66	4.54	3%
USD/EURO Closing rate		1.20	1.06	13%
Inflation in Romania*		3.32%	-0.54%	N/A

*Source: Platts, * INSSE*

The Brent price started the year moving in a narrow bandwidth around the $55 per barrel mark, which held until the beginning of March. The months of March through July were characterized by price volatility with intra-month swings of $5 per barrel with pressure to the downside ultimately winning out. Brent fell briefly below the $45 per barrel mark in mid-to-late June, marking the low point for the year. Second semester saw a reversal of this trend, with a series of supply outages and strong demand indications contributing to global stock draws and a growing perception of a tighter global crude market.

High compliance by OPEC and non-OPEC participants to the supply cut deal went a long way to contributing to the perceived rebalancing of markets. Record high crude runs in many places around the world also helped soak up new supply coming online in the Atlantic Basin.

2017 was a turbulent year for Urals differentials. Urals Med and Urals NWE started the year at discounts to Dated Brent of roughly $1.10 and $1.75 per barrel respectively (Platts). Both broadly maintained a discount to Dated Brent of $1 per barrel or more until late May. Both differentials then strengthened against Dated Brent for a couple of months, peaking close to parity with the benchmark crude in late - July/early - August, with Urals Med briefly pricing at a small premium to Dated Brent. The reason for this strengthening can largely be attributed to lower loadings of Urals NWE from May onward whilst maintenance was carried out on a crude supply pipeline.

The recovery of European medium sour supplies in August and September weakened Urals differentials. The end of September saw the Northern Iraqi region of Kurdistan's referendum on independence. The aftermath of the vote saw Iraqi government forces occupy oilfields in the Kirkuk region, which had previously been under the control of the Kurdish Regional Government. Iraqi crude exports from the Turkish port of Ceyhan dipped considerably following this development. This proved bullish for Urals differentials, with Urals Med and Urals NWE surging 80 cents and $1.30 per barrel, respectively, in late-September/early October to discounts vs Dated Brent of about 25 cents and $1 per barrel, respectively (Platts). Low levels of Russian refinery maintenance in Q4 2017 contributed to the continued decline of total medium sour supplies in Europe, which lent strength to

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Urals differentials. Further supply side support came from the temporary outage of the 450,000 b/d Forties Pipeline System between 11 December and Christmas/New Year.

Med premium unleaded gasoline cracks had an overall healthy year in 2017. Although the highs of 2016 were not sustained on average, strong regional and global demand as well as competition for supply from a resurgent middle distillate complex kept balances in a relatively price-supportive area for most of the year. Global light distillate inventories moved from a high seasonal level at the start of the year to almost in line with the 5-year average by year's end. Mediterranean gasoline demand itself essentially held near levels observed in the prior year. This is a marked change from expectations from just a few years ago and was driven partly by economic gains but also by still relatively low prices and a broad European shift towards buying gasoline cars rather than diesel.

Gasoline cracks did see some pressure in Q4, especially compared to the last two years. One has to keep in mind that winter 2016 & 2017 were especially strong in terms of gasoline cracks, and this year appears to be more in line with typical seasonal developments whereby weak Atlantic Basin demand weighs on cracks until late Q1. Nevertheless, what has been true is that a lack of growth in crude runs in Latin America and some refining issues in the Middle East, such as the prolonged out of the huge RFCC units at Ruwais, have been supportive and should continue to be supportive at least through the start of 2018.

Overall, 2017 was a good year for diesel markets, mostly on the back of strong global demand growth. Additionally, heavy stock draws in Europe and the US helped reduce the global inventory overhang quite significantly. Supported by strong middle distillate fundamentals, diesel cracks in the key refining hubs trended higher y-o-y over most of 2017. Meanwhile, Hurricane Harvey's landfall and the subsequent drop in US supply in an already tight global market sent cracks temporarily to multi-year highs. The rise and fall of cracks was sharpest in Europe, which usually takes in a large number of spare US barrels.

European cracks were on an overall downward trend over Q4, pressured by ample arbitrary inflows and exceptionally strong crude runs as swing refiners in the region ramped up runs in an effort to catch the high cracks wave. Nonetheless, European diesel cracks remained higher y-o-y amid healthy demand growth in Q4 2017. Additional support for European cracks came from lower availability of US exports, which were focused on the Central and South American market. Nonetheless, cracks performed worse than the US and Asian markets, which finished the year near their Harvey highs.

Cracking margins for sour crude in the Med were over 30% higher in 2017 than in 2016. Margins found strong support in higher middle distillate cracks on the back of a booming global economy. Higher margins were also needed to encourage European swing refiners to increase intake in line with surging global demand and the continued outage of a sizeable portion of Latin American refining capacity. As a result, run rates in the European Med were around 160,000 b/d higher in 2017 than in 2016. In Q3, global refining capacity became even tighter due to a hurricane season that proved much more disruptive than in 2016, reducing US crude runs in September by 1.5 million b/d relative to the prior month.

However, pressure began to mount in Q4 not least due to the significant swing capacity drawn into the market. High runs saw gasoline cracks weaken while fuel oil cracks continued on a downward path that started in the summer as ample pressure came from sharply rising crude price. Mediterranean cracks were also negatively impacted by a stronger Urals market on the back of high runs and tighter availability of medium-sour supplies in the region. The discount of Urals Med to Dated Brent was around $1 per barrel, narrower in Q4 2017 than in Q4 2016.

**The information is based on analysis provided by JBC Energy GmbH*

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REFINING SEGMENT

		2017	2016	%	2017	2016	%
Financial		**USD**	**USD**		**RON**	**RON**	
Gross Revenues	USD/RON	3,479,314,807	2,898,959,937	20%	13,539,753,571	11,281,302,595	20%
Net Revenues	USD/RON	2,588,143,186	1,976,229,685	31%	10,071,759,208	7,690,497,819	31%
EBITDA	USD/RON	164,431,901	124,717,672	32%	639,886,743	485,338,821	32%
EBITDA margin	%	6.4%	6.3%		6.4%	6.3%	
EBIT	USD/RON	58,749,524	65,112,548	-10%	228,623,772	253,385,480	-10%
Net profit / (loss)	USD/RON	8,774,525	45,542,814	-81%	34,146,063	177,229,861	-81%
Net profit / (loss) margin	%	0.3%	2.3%		0.3%	2.3%	
Gross cash refinery margin/tone (Petromidia)	USD/(RON)/ tonne	50.90	42.47	20%	198.07	165.29	20%
Gross cash refinery margin/bbl (Petromidia)	USD/(RON) /bbl	7.01	5.85	20%	27.27	22.76	20%
Net cash refinery margin/tone (Petromidia)	USD/(RON)/ tonne	28.01	21.94	28%	109.02	85.36	28%
Net cash refinery margin/bbl (Petromidia)	USD/(RON)/ bbl	3.86	3.02	28%	15.01	11.75	28%
Operational							
Feedstock processed In Petromidia refinery	thousand tonnes	5,662	5,408	5%			
Feedstock processed In Vega refinery	thousand tonnes	373	354	5%			
Gasoline produced	thousand tonnes	1,488	1,448	3%			
Diesel & jet fuel produced	thousand tonnes	2,979	2,751	8%			
Motor fuels sales - domestic	thousand tonnes	2,128	1,884	13%			
Motor fuels sales - export	thousand tonnes	2,111	2,118	0%			
Export	%	50%	53%				
Domestic	%	50%	47%				

Refining segment comprises the results of the company Rompetrol Rafinare related to Petromidia and Vega refineries. Rompetrol Rafinare computes Gross refinery margin as follows = (Oil Product Sales – Cost of Feedstock) / Quantity of sales. Net Refinery margin is the EBITDA divided by quantity of sales.

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Gross revenues of refining segment reached over USD 3.479 billion in 2017 increase by 20% as against last year, being mainly influenced by the volatility of international quotations of petroleum products and by the increase in the volume of products sold compared to similar periods last year.

In 2017 the total throughput for Petromidia refinery was 5.66 million tonnes, higher by 4.71% compared with last year when the total throughput was 5.4 million tonnes.

The refining capacity utilization for Petromidia refinery was 85.88% in 2017, lower by 0.8% compared with last year.

Petromidia refinery managed to achieve in 2017 a very good operational performance, at historically high levels for its main technological and operational parameters such as:

- ✓ total feedstock processed of ~5.66 million tonnes - record total feedstock processed since 1979, an equivalent of 16.8 thousand tonnes/day of operation total feedstock processed, 5% improvement against last year;
- ✓ record for white products production 4.88 million tonnes;
- ✓ record for auto gasoline production of 1.46 million tonnes;
- ✓ record for diesel production of 2.74 million tonnes;
- ✓ record for propylene production of 133 thousand tonnes;
- ✓ technological loss of 0.85% wt;
- ✓ jet yield (4.4 %), equivalent of 251 thousand tonnes production;
- ✓ Energy Intensity Index 99.9%
- ✓ mechanical availability 96.47%
- ✓ operational availability 93.3%.

In respect of Vega refinery (the oldest processing unit operating in Romania (since 1905) and the only domestic producer of bitumen and hexane), the total throughput was 372.954 thousand tonnes in 2017, higher by 5.26% compared with last year when the total throughput was 354.306 thousand tonnes for 2016.

The refining capacity utilization for Vega refinery was 113% in 2017, higher by 5.65% higher compared with last year.

Vega refinery also managed to achieve in 2017 very good operational performance results, at historical high levels, of which the following are emphasized:

- ✓ historical record for feedstock processed of 373 thousand tonnes higher by 19 thousand tonnes as against last year;
- ✓ historical record for Bitumen production and sales of 96 thousand tonnes;
- ✓ historical record for ecological solvents production of 41 thousand tonnes;
- ✓ Hexane production reached 80 thousand tonnes;
- ✓ lowest technological loss of ~ 1%wt;

The gross cash refinery margin improved in 2017 compared with last year by 20% reaching a level of 50.9 $/tonne as against 42.5 $/tonne in 2016. The company's financial results were positively influenced by favourable market conditions and by production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization, programs that started in the year 2014 and successfully continued in 2015, 2016 and 2017 (out of which reduction in steam and power consumption are the most significant).

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 1.264 billion in 2017.

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PETROCHEMICALS SEGMENT

		2017	2016	%	2017	2016	%
Financial		**USD**	**USD**		**RON**	**RON**	
Revenues	USD/RON	191,326,498	180,271,804	6%	744,547,067	701,527,725	6%
EBITDA	USD/RON	(5,304,452)	6,320,969	-184%	(20,642,275)	24,598,051	-184%
EBIT	USD/RON	(20,365,240)	(8,865,805)	130%	(79,251,332)	(34,501,280)	130%
Net profit / (loss)	USD/RON	(12,977,684)	(11,264,121)	15%	(50,502,658)	(43,834,327)	15%
Operational	USD/RON						
Propylene processed	thousand tonnes	134	124	9%			
Ethylene processed	thousand tonnes	64	65	-2%			
Total polymers production	thousand tonnes	147	150	-2%			
Sold from own production		189	188				
Sold from trading	thousand tonnes	1	1	17%			
Total sold		191	190	1%			
Export	%	50%	57%				
Domestic	%	50%	43%				

Petrochemicals segment comprises the petrochemicals activity from Rompetrol Rafinare and the activity of Rompetrol Petrochemicals SRL

Starting 1st of January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A., being fully integrated in the propylene, utilities and logistics flow with Petromidia refinery.

In terms of low-density polyethylene unit (LDPE), the petrochemicals segment works 100% with ethylene from import.

The petrochemicals segment is the sole polypropylene producer in Romania and has constantly succeeded to increase its market share on secondary categories of products. Its dynamic development strategy has secured the company a competitive position on the domestic market and on the regional one – the Black Sea and Mediterranean region and the Eastern and Central Europe.

The 2017 year was very good for the petrochemicals activity in terms of operational performance:

- Historical record for feedstock processed running only with PP and LDPE units:198.5 thousand tonnes (134 thousand tonnes, propane propylene mixture, 64 thousand tonnes ethylene);
- Historical record for production: 193 thousand tonnes,
- Record for propylene grade production: 20 thousand tonnes;
- Lowest energy index 18.7 GJ/tone.

In 2017, the total polymers production for Petrochemicals area was 147 thousand tonnes by 1.77 % lower compared with last year when the total polymers production was 150 thousand tonnes, mainly due to lower operation period of units.

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MARKETING SEGMENT

		2017	2016	%	2017	2016	%
Financial		**USD**	**USD**		**RON**	**RON**	
Gross Revenues	USD/RON	2,453,396,882	2,196,231,269	12%	9,547,393,966	8,546,633,983	12%
EBITDA	USD/RON	52,903,421	55,320,629	-4%	205,873,663	215,280,228	-4%
EBIT	USD/RON	21,093,960	36,638,553	-42%	82,087,145	142,578,929	-42%
Net profit / (loss)	USD/RON	27,493,675	24,119,283	14%	106,991,638	93,860,190	14%
Operational							
Fuels quantities sold in retail	thousand tonnes	693	636	9%			
Fuels quantities sold in wholesale	thousand tonnes	1,191	1,126	6%			
LPG quantities sold	thousand tonnes	363	273	33%			

Marketing segment includes the results of Rompetrol Downstream, Rom Oil, Rompetrol Quality Control Rompetrol Logistics and Rompetrol Gas

The marketing segment had a turnover of over 2.453 billion USD for the year 2017 higher by 12 % as against last year.

Sales increased in 2017 compared with 2016 for retail, wholesale and LPG segment by 9%, 6% respectively 33%.

In 2017 compared to 2016, the Platts quotations (FOB Med Italy-mean), expressed in the currency of reference, USD were on average by 18,5% higher for gasoline and by 24% higher for diesel.

Internally, a major influence in changing prices had a reduction in VAT starting with 1st of January 2017, from 20% to 19%, and excise duties on fuels were reduced by 7 eurocents/litre. Subsequently, fuel excises increased by 0.32 RON/liter in two stages of 0.16 RON/liter, the first stage staring on 15th of September 2017, and the second stage entered into fore since 1st of October 2017.

Rompetrol Downstream, covering the Romanian market, reached record sales in 2017 of 1.89 million tonnes, increase by 7% against 2016 (1.77 million tonnes). Record sales were noted in all major channels, having also a historical level for the petroleum products daily sales for all retail channels. In addition to the petroleum products sales, the non-fuel retail segment reached record contribution with an increase of 20% compared to 2016.

During 2017, Rompetrol Downstream continued the implementation of important investment projects, like opening 4 new stations, increasing the internal base network and rebranding of gas stations, LPG skids, partner stations and express stations. On top of this, the continuation of the implementation of the new business model by Rompetrol Downstream plus the enhancement of the cost control measures have allowed Rompetrol Downstream to obtain better operational results, generating a higher EBITDA by 5% versus last year.

As of December 2017, the Rompetrol Downstream's distribution segment contained 807 points of sale, including the network of owned stations, partner stations and mobile stations: express, cuves and internal bases.

In 2017, Rompetrol Quality Control (RQC) continued the positive results from last year in order to consolidate its overall market share and to increase the turnover and profitability from third-party customers. The revenues from third-party customers obtained in 2017 were the highest in the last 2 years, increasing by 6% compared with the year 2016.

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APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2017, UNAUDITED

	2017	2016	%	2017	2016	%
	USD	USD		RON	RON	
Gross Revenues	4,151,088,337	3,566,449,386	16%	16,153,960,263	13,878,837,787	16%
Sales taxes and discounts	(1,058,081,009)	(1,125,939,358)	-6%	(4,117,522,246)	(4,381,593,012)	-6%
Net revenues	**3,093,007,328**	**2,440,510,028**	**27%**	**12,036,438,017**	**9,497,244,775**	**27%**
Cost of sales	(2,786,630,756)	(2,191,393,341)	27%	(10,844,173,588)	(8,527,807,188)	27%
Gross margin	**306,376,572**	**249,116,687**	**23%**	**1,192,264,429**	**969,437,587**	**23%**
Selling, general and administration	(190,883,469)	(163,675,757)	17%	(742,823,021)	(636,944,209)	17%
Other operating income	801,814	9,193,599	-91%	3,120,259	35,776,891	-91%
Other operating expenses	(58,754,223)	(2,176,631)	2599%	(228,642,059)	(8,470,360)	2599%
EBIT	**57,540,694**	**92,457,898**	-38%	**223,919,608**	**359,799,909**	-38%
Finance, net	(32,699,932)	(32,728,268)	0%	(127,251,783)	(127,362,055)	0%
Unrealized net foreign exchange (losses)/gains	(903,766)	1,020,605	-189%	(3,517,004)	3,971,684	-189%
Realized net foreign exchange (losses)/gains	319,217	(6,166,624)	-105%	1,242,233	(23,997,417)	-105%
EBT	**24,256,213**	**54,583,611**	**-56%**	**94,393,054**	**212,412,121**	**-56%**
Income tax	(3,550,756)	2,561,756	-239%	(13,817,767)	9,969,074	-239%
Net result	**20,705,457**	**57,145,367**	**-64%**	**80,575,287**	**222,381,195**	**-64%**
EBITDA	**210,727,761**	**186,548,315**	**13%**	**820,047,082**	**725,952,768**	**13%**

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APPENDIX 2 – CONSOLIDATED BALANCE SHEET DECEMBER 31, 2017, AUDITED

	December 31, 2017	December 31, 2016	%	December 31, 2017	December 31, 2016	%
	USD	USD		RON	RON	
Assets						
Non-current assets						
Intangible assets	8,252,455	7,265,762	14%	32,114,429	28,274,713	14%
Goodwill	82,871,706	82,871,706	0%	322,495,245	322,495,245	0%
Property, plant and equipment	1,254,559,178	1,138,146,913	10%	4,882,117,042	4,429,098,714	10%
Financial assets and other	37,839,253	64,968,050	-42%	147,251,452	252,823,167	-42%
Total Non Current Assets	**1,383,522,592**	**1,293,252,431**	**7%**	**5,383,978,168**	**5,032,691,839**	**7%**
Current assets						
Inventories	342,623,825	230,091,565	49%	1,333,320,615	895,401,325	49%
Trade and other receivables	436,209,507	287,577,488	52%	1,697,509,296	1,119,107,795	52%
Derivative financial Instruments	-	5,340	-100%	-	20,781	-100%
Cash and cash equivalents	12,592,193	15,810,298	-20%	49,002,519	61,525,775	-20%
Total current assets	**791,425,525**	**533,484,691**	**48%**	**3,079,832,430**	**2,076,055,676**	**48%**
Total assets	**2,174,948,117**	**1,826,737,122**	**19%**	**8,463,810,598**	**7,108,747,515**	**19%**
Equity and liabilities						
Total Equity	**704,345,972**	**478,624,262**	**47%**	**2,740,962,354**	**1,862,566,317**	**47%**
Non-current liabilities						
Hybrid instruments - long-term portion	14,687,203	-	0%	57,155,250	-	0%
Provision	85,001,042	76,429,343	11%	330,781,551	297,424,788	11%
Long-term debt	-	193,162,805	-100%	-	751,693,056	-100%
Other	3,923,537	483,680	711%	15,268,444	1,882,241	711%
Total non-current liabilities	**103,611,782**	**270,075,828**	**-62%**	**403,205,245**	**1,051,000,085**	**-62%**
Current Liabilities						
Trade and other payables	966,666,960	788,571,675	23%	3,761,784,480	3,068,726,677	23%
Derivative financial instruments	48,387	323,130	-85%	188,298	1,257,460	-85%
Short-term debt	400,275,016	289,142,227	38%	1,557,670,221	1,125,196,976	38%
Total current liabilities	**1,366,990,363**	**1,078,037,032**	**27%**	**5,319,642,999**	**4,195,181,113**	**27%**
Total equity and liabilities	**2,174,948,117**	**1,826,737,122**	**19%**	**8,463,810,598**	**7,108,747,515**	**19%**

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Risk Management

The Group's activities expose it to a variety of risks including the effects of: changes in the international quotations for crude oil and petroleum products, foreign currency exchange rates and interest rates. The Group's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Group companies.

Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Group to both fair value and cash flow risk.

Foreign exchange risk

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in foreign currencies, which are translated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Group Treasury is responsible for handling the Group foreign currency transactions.

Liquidity and cash flow risks

The liquidity risk consists in not having financial resources available in order to fulfill company obligations when they are due. Based on the forecasted cash flow, the management of the company checks daily the liquidity level and ensures the fulfillment of obligations to suppliers, to the state budget, to the local tax authorities etc. according to their maturity. The current and immediate liquidity ratios are monitored permanently.

One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2017 the company enjoyed continuous financing resources at the needed levels and ensured that no cases of temporary lack of financial resources or of lack of liquidity of the company occurred, as a result of selling products guaranteed with payment instruments and negotiating receipt terms from clients and payment terms to suppliers that are advantageous, maintaining at the same time a good relation with the business partners. Rompetrol Rafinare is part of the cash pooling facility of the KMGI Group and therefore can cover unexpected cash outflows by drawing from the facility.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

- *Trade receivables*

The Group is exposed to credit risk. Overdue customer receivables are regularly monitored. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

- *Financial instruments and bank deposits*

Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy.

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Commodity price risk

The Group is affected by the volatility of crude oil, oil product and refinery margin prices. Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Group's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Group started on January 2011 to hedge commodities held by Rompetrol Rafinare and in 2014 it was implemented a hedging program in Rompetrol Downstream.

According to the hedge policy, on the raw materials and petroleum products side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, the hedge strategy for 2017 was split between futures and options while a certain quantity above base operating stock left unhedged.

Trading activities are separated into physical effective transactions (purchase of raw materials and sales of petroleum to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical effective transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Group sells or buys the equivalent number of future contracts based on the current position at that particular moment. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. The company also had hedge operations for refinery margins.

Operational risk

The operational risk derives from the possibility that accidents, errors, malfunctions may occur, as well as from the influences of the environment upon the operating and financial results. Rompetrol Rafinare S.A. has continued a broad revamp process on the refinery technology, for the purpose of increasing the production, reducing the technological losses, as well as eliminating the accidental shut-downs in the industrial process. Also, the Company is preoccupied with maintaining and improving the quality-environment-safety integrated system on a constant basis, aiming to improve the organizational image, by complying with the requirements on quality, environmental protection and work safety, by improving the relationship with the authorities and with the socio-economic society, by limiting the civil and criminal liability and by meeting the legal requirements for quality – environment – security.

Subsequent events

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until April 10, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until May 28, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2018.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2018.

At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates from Act Financial Solutions BV (former ACT Commodities BV).

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Note:

The Board of Directors Annual Report was prepared based on the audited financial statements.

The functional currency, as basis for preparing the financial statements, is USD. RON currency is used as currency for presenting the informations in USD, according to the International Financial Reporting Standards. All the RON information were obtained by multiplying the USD values with the exchange rate USD/RON = 3.8915 as of 31 December 2017.

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MEMBER OF THE BOARD OF DIRECTORS
Alexey Golovin

MEMBER OF THE BOARD OF DIRECTORS
Yedil Utekov

MEMBER OF THE BOARD OF DIRECTORS
Mihai-Liviu Mihalache

MEMBER OF THE BOARD OF DIRECTORS
Nicoleta-Viorica Soisun

Prepared by,
CHIEF FINANCIAL OFFICER
Vasile-Gabriel Manole

ROMPETROL RAFINARE SA

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ENDORSED BY THE EUROPEAN UNION (EU)

DECEMBER 31, 2017

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ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	Notes	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
		USD	USD	RON	RON
Intangible assets	3	8,252,455	7,265,762	32,114,429	28,274,713
Goodwill	4	82,871,706	82,871,706	322,495,245	322,495,245
Property, plant and equipment	5	1,254,559,178	1,138,146,913	4,882,117,042	4,429,098,714
Available for sale investments	7	18,583	18,583	72,316	72,316
Long-term receivable		1,599,013	1,480,888	6,222,559	5,762,876
Deferred tax asset	13	36,221,657	63,468,579	140,956,577	246,987,975
Total non current assets		**1,383,522,592**	**1,293,252,431**	**5,383,978,168**	**5,032,691,839**
Inventories, net	8	342,623,825	230,091,565	1,333,320,615	895,401,325
Trade and other receivables	9	436,209,507	287,577,488	1,697,509,296	1,119,107,795
Derivative financial instruments	29.5	-	5,340	-	20,781
Cash and cash equivalents	10	12,592,193	15,810,298	49,002,519	61,525,775
Total current assets		**791,425,525**	**533,484,691**	**3,079,832,430**	**2,076,055,676**
TOTAL ASSETS		**2,174,948,117**	**1,826,737,122**	**8,463,810,598**	**7,108,747,515**
Share capital	11	1,463,323,897	1,463,323,897	5,694,524,945	5,694,524,945
Share premium	11	74,050,518	74,050,518	288,167,591	288,167,591
Revaluation reserve, net	11	146,431,777	-	569,839,260	-
Other reserves	11	(4,153,668)	(3,452,149)	(16,163,999)	(13,434,038)
Other reserves - Hybrid loan	11	1,059,285,995	1,000,000,000	4,122,211,450	3,891,499,999
Effect of transfers with equity holders	11	(596,832,659)	(596,832,659)	(2,322,574,292)	(2,322,574,292)
Accumulated losses		(1,473,246,436)	(1,529,316,646)	(5,733,138,502)	(5,951,335,725)
Current year result		19,552,126	56,070,210	76,087,098	218,197,223
Equity attributable to equity holders of the parent		**688,411,550**	**463,843,171**	**2,678,953,551**	**1,805,045,703**
Non-Controlling interest		15,934,422	14,781,091	62,008,803	57,520,614
Total equity		**704,345,972**	**478,624,262**	**2,740,962,354**	**1,862,566,317**
Long-term borrowings from banks	12	-	193,162,805	-	751,693,056
Hybrid loans- interest portion	11	14,687,203	-	57,155,250	-
Deferred tax liabilities	13	3,715,861	306,570	14,460,273	1,193,017
Provisions	16	85,001,042	76,429,343	330,781,551	297,424,788
Other non-current liabilities		207,676	177,110	808,171	689,224
Total non-current liabilities		**103,611,782**	**270,075,828**	**403,205,245**	**1,051,000,085**
Trade and other payables	14	966,666,960	788,571,675	3,761,784,480	3,068,726,677
Derivative financial instruments	29.5	48,387	323,130	188,298	1,257,460
Short-term borrowings from shareholders and related parties	15	176,211,784	268,253,969	685,728,155	1,043,910,320
Short-term borrowings from banks	15	224,063,232	20,888,258	871,942,066	81,286,656
Total current liabilities		**1,366,990,363**	**1,078,037,032**	**5,319,642,999**	**4,195,181,113**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,174,948,117**	**1,826,737,122**	**8,463,810,598**	**7,108,747,515**

The consolidated financial statements have been approved on March 22th, 2018 and submitted for approval by the General Assembly of shareholders on April 27, 2018 by:

CATALIN DUMITRU
PRESIDENT of the BOARD of DIRECTORS

YEDIL UTEKOV
CHIEF EXECUTIVE OFFICER

VASILE-GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

Prepared by,

Cristina Ana Dica
Reporting Coordinator

The accompanying notes from 1 to 30 are an integral part of these consolidated financial statements.
English translation is for information purposes only. Romanian language text is the official text for submission.

ROMPETROL RAFINARE SA
CONSOLIDATED INCOME STATEMENT
for the year ended at December 31, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	Notes	2017 USD	2016 USD	2017 RON	2016 RON
Revenues	17	3,093,007,328	2,440,510,028	12,036,438,017	9,497,244,775
Cost of sales	18	(2,786,630,756)	(2,191,393,341)	(10,844,173,588)	(8,527,807,188)
Gross profit		**306,376,572**	**249,116,687**	**1,192,264,429**	**969,437,587**
Selling, general and administrative expenses, including logistic costs	19	(190,883,469)	(163,675,757)	(742,823,021)	(636,944,209)
Other operating income	20	801,814	9,193,599	3,120,259	35,776,891
Other operating expenses	20	(58,754,223)	(2,176,631)	(228,642,059)	(8,470,360)
Operating profit		**57,540,694**	**92,457,898**	**223,919,608**	**359,799,909**
Finance cost	21	(53,227,537)	(44,595,927)	(207,134,958)	(173,545,050)
Finance income	21	20,527,605	11,867,659	79,883,175	46,182,995
Foreign exchange loss, net	21	(584,549)	(5,146,019)	(2,274,771)	(20,025,733)
Profit before income tax		**24,256,213**	**54,583,611**	**94,393,054**	**212,412,121**
Income tax	23	(3,550,756)	2,561,756	(13,817,767)	9,969,074
Profit for the year		**20,705,457**	**57,145,367**	**80,575,287**	**222,381,195**
Attributable to:					
Equity holders of the parent		19,552,126	56,070,210	76,087,098	218,197,223
Non-Controlling interests		1,153,331	1,075,157	4,488,189	4,183,972
Earnings per share *(US cents/share)*					
Basic	25	0.044	0.127	0.171	0.494

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CHIEF FINANCIAL OFFICER

Prepared by,

Cristina Ana Dica
Reporting Coordinator

ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended at December 31, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	2017 USD	2016 USD	2017 RON	2016 RON
Net Gain for the year	**20,705,457**	**57,145,367**	**80,575,287**	**222,381,195**
Other comprehensive income				
Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):				
Hedge reserve	312,211	(1,117,247)	1,214,969	(4,347,767)
Net other comprehensive income to be reclassified to income/(loss) statement in subsequent periods	**312,211**	**(1,117,247)**	**1,214,969**	**(4,347,767)**
Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):				
Actuarial losses on retirement benefits	(1,013,730)	(1,029,432)	(3,944,930)	(4,006,035)
Revaluation of buildings category in property plant and equipment	174,323,544	-	678,380,071	-
Deferred income tax related to revaluation, recognised in equity	(27,891,767)	-	(108,540,811)	-
Net other comprehensive income/(loss) not to be reclassified to income statement in subsequent periods	**145,418,047**	**(1,029,432)**	**565,894,330**	**(4,006,035)**
Total other comprehensive income (loss) for the year, net of tax	**145,730,258**	**(2,146,679)**	**567,109,299**	**(8,353,802)**
Total comprehensive income for the year, net of tax	**166,435,715**	**54,998,688**	**647,684,586**	**214,027,393**
Attributable to:				
Equity holders of the parent	165,282,384	53,923,531	643,196,397	209,843,421
Non-Controlling interests	1,153,331	1,075,157	4,488,189	4,183,972
Total comprehensive income for the year	**166,435,715**	**54,998,688**	**647,684,586**	**214,027,393**

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ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended at December 31, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	2017 USD	2016 USD	2017 RON	2016 RON
Profitbefore income tax	**24,256,213**	**54,583,611**	**94,393,054**	**212,412,121**
Adjustments for:				
Depreciation and amortisation	96,061,994	95,778,024	373,825,250	372,720,181
Provisions for receivables and inventories (incl write-off)	2,268,436	(3,379,483)	8,827,618	(13,151,258)
Impairment for property, plant and equipment (incl write-off)	1,037,558	1,999,849	4,037,656	7,782,412
Loss on revaluation of tangible assets	44,981,492	-	175,045,476	-
Provision for environmental and other liabilities	10,297,478	-	40,072,636	-
Restructuring and retirement benefit provisions	264,965	(621,564)	1,031,111	(2,418,816)
Late payment interest	99,212	6,753	386,083	26,279
Other financial income	(486,529)	(386,785)	(1,893,328)	(1,505,174)
Interest income	(20,041,076)	(11,480,874)	(77,989,847)	(44,677,821)
Interest expense and bank charges	51,177,832	42,936,374	199,158,533	167,086,899
Gain on sale or disposal of property, plant and equipment	(376,590)	(196,801)	(1,465,500)	(765,851)
Unrealised foreign exchange (gain)/loss	12,605,676	(488,670)	49,054,988	(1,901,659)
Cash from operations before working capital changes	**222,146,661**	**178,750,434**	**864,483,730**	**695,607,313**
Net working capital changes:				
Receivables and prepayments	(244,498,806)	(153,208,372)	(951,467,103)	(596,210,379)
Inventories	(113,776,397)	(51,535,765)	(442,760,849)	(200,551,429)
Trade and other payables	276,373,352	199,928,165	1,075,506,902	778,020,457
Change in working capital	**(81,901,851)**	**(4,815,972)**	**(318,721,050)**	**(18,741,351)**
Income tax paid	**-**	**-**	**-**	**-**
Cash (paid)/received for derivatives, net	**42,808**	**(1,426,383)**	**166,587**	**(5,550,769)**
Net cash provided by/(used in) operating activities	**140,287,618**	**172,508,079**	**545,929,267**	**671,315,193**
Cash flows from investing activities				
Purchase of property, plant and equipment	(84,027,084)	(59,586,224)	(326,991,399)	(231,879,793)
Purchase of intangible assets	(1,333,129)	(1,856,450)	(5,187,872)	(7,224,375)
Proceeds from sale of property, plant and equipment	451,011	262,411	1,755,109	1,021,172
Net cash used in investing activities	**(84,909,202)**	**(61,180,263)**	**(330,424,162)**	**(238,082,996)**
Cash flows from financing activities				
Cash pooling movement	52,782,953	6,916,381	205,404,862	26,915,097
Long - term loans received from banks	-	44,126,912	-	171,719,878
Long - term loans repaid to banks	-	(66,276,609)	-	(257,915,424)
Short - term loans (repaid to)/ received from shareholders	(82,004,189)	(2,790,339)	(319,119,301)	(10,858,604)
Short - term loans/ (repaid to) received from banks, net	9,880,159	(17,127,684)	38,448,639	(66,652,382)
Interest and bank charges paid, net	(39,255,444)	(67,093,258)	(152,762,560)	(261,093,414)
Net cash used in financing activities	**(58,596,521)**	**(102,244,597)**	**(228,028,361)**	**(397,884,849)**
Increase / (Decrease) in cash and cash equivalents	**(3,218,105)**	**9,083,219**	**(12,523,256)**	**35,347,348**
Cash and cash equivalents at the beginning of period	**15,810,298**	**6,727,079**	**61,525,775**	**26,178,427**
Cash and cash equivalents at the end of the period	**12,592,193**	**15,810,298**	**49,002,519**	**61,525,775**

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Prepared by,

Cristina Ana Dica
Reporting Coordinator

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English translation is for information purposes only. Romanian language text is the official text for submission.

Amount in USD

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognised in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-Controlling interest	Total equity
December 31, 2015	**1,463,323,897**	**74,050,518**	**(1,529,316,646)**	**-**	**-**	**(596,832,659)**	**998,694,530**	**409,919,640**	**13,705,934**	**423,625,574**
Net profit for 2016	-	-	56,070,210	-	-	-	-	**56,070,210**	1,075,157	**57,145,367**
Other comprehensive income	-	-	-	-	-	-	(2,146,679)	**(2,146,679)**	-	**(2,146,679)**
Total comprehensive income	**-**	**-**	**56,070,210**	**-**	**-**	**-**	**(2,146,679)**	**53,923,531**	**1,075,157**	**54,998,688**
December 31, 2016	**1,463,323,897**	**74,050,518**	**(1,473,246,436)**	**-**	**-**	**(596,832,659)**	**996,547,851**	**463,843,171**	**14,781,091**	**478,624,262**
Net profit for 2017	-	-	19,552,126	-	-	-	-	**19,552,126**	1,153,331	**20,705,457**
Other comprehensive income	-	-	-	174,323,544	(27,891,767)	-	(701,519)	**145,730,258**	-	**145,730,258**
Total comprehensive income	**-**	**-**	**19,552,126**	**174,323,544**	**(27,891,767)**	**-**	**(701,519)**	**165,282,384**	**1,153,331**	**166,435,715**
Hybrid loan - reserves	-	-	-	-	-	-	59,285,995	**59,285,995**		**59,285,995**
December 31, 2017	**1,463,323,897**	**74,050,518**	**(1,453,694,310)**	**174,323,544**	**(27,891,767)**	**(596,832,659)**	**1,055,132,327**	**688,411,550**	**15,934,422**	**704,345,972**

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Reporting Coordinator

Amount in RON

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognised in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2015	**5,694,524,945**	**288,167,591**	**(5,951,335,728)**	**-**	**-**	**(2,322,574,292)**	**3,886,419,763**	**1,595,202,279**	**53,336,642**	**1,648,538,924**
Net profit for 2016	-	-	218,197,226	-	-	-	-	**218,197,226**	4,183,972	**222,381,198**
Other comprehensive income	-	-	-	-	-	-	(8,353,802)	**(8,353,802)**	-	**(8,353,802)**
Total comprehensive income	-	-	218,197,226	-	-	-	(8,353,802)	**209,843,424**	4,183,972	**214,027,393**
December 31, 2016	**5,694,524,945**	**288,167,591**	**(5,733,138,502)**	**-**	**-**	**(2,322,574,292)**	**3,878,065,961**	**1,805,045,703**	**57,520,614**	**1,862,566,317**
Net profit for 2017	-	-	76,087,098	-	-	-	-	**76,087,098**	4,488,189	**80,575,287**
Other comprehensive income	-	-	-	678,380,071	(108,540,811)	-	(2,729,961)	**567,109,299**	-	**567,109,299**
Total comprehensive income	-	-	76,087,098	678,380,071	(**108,540,811)**	-	(2,729,961)	**643,196,397**	4,488,189	**647,684,586**
Hybrid loan - reserves	-	-	-	-	-	-	230,711,451	**230,711,451**	-	**230,711,451**
December 31, 2017	**5,694,524,945**	**288,167,591**	**(5,657,051,404)**	**678,380,071**	**(108,540,811)**	**(2,322,574,292)**	**4,106,047,451**	**2,678,953,551**	**62,008,803**	**2,740,962,354**

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Reporting Coordinator

1. GENERAL

Rompetrol Rafinare S.A. (hereinafter referred to as "the Parent Company" or "the Company" or ''the Parent'' or ''RRC'') is a company incorporated under Romanian law. The Parent Company operates Petromidia and Vega refineries. Petromidia refinery, located on the Black Sea coast, processes exclusively, imported crude oil and produces E.U. standard motor fuels, other petroleum products and certain petrochemicals. Petromidia refinery was designed and built during 1975-1977 and was further modernized in the early 1990's and from 2005 to 2012.

Rompetrol Rafinare S.A and its subsidiaries (hereinafter referred to as "the Group") are involved in refining, petrochemicals and downstream activities, and have all production facilities located in Romania (see Note 7.a). The number of employees of the Group at the end of 2017 and 2016 was 1,887 and 2,114 respectively.

The registered address of Rompetrol Rafinare S.A. is Bd. Navodari no. 215, Navodari, Constanta, Romania. Rompetrol Rafinare S.A. and its subsidiaries are part of KMG International N.V. with its registered address located at World Trade Centre, Strawinskylaan 807, Tower A, 8th floor, 1077 XX Amsterdam, the Netherlands.

The Group's ultimate parent company is "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan and owned by the Kazakh State.

The Company is a joint stock company listed on the Bucharest Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective as of December 31, 2017, as endorsed by the European Union ("EU").

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, available-for-sale (AFS) financial assets and buildings and constructions that have been measured at fair value.

The consolidated financial statements provide comparative information in respect of the previous period.

b) Going concern

The financial statements of the Group are prepared on a going concern basis. As at December 31, 2017 and 2016 the Group reported net assets including non-controlling interest, of USD 704.3 million and USD 478.6 million respectively. The Group reported for the year ended December 31, 2017 a profit of USD 19.5 million and for the year ended December 31, 2016 reported a profit of USD 56 million respectively.

The Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy confirms the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STRATEGY

The Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy is reaffirming the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group. KMG International relies on four synergic pillars:

- A modern, reliable and highly performing asset base
- Capable management to drive improved performance
- Long-term strategy that links the company's strengths with opportunities on the market
- Adequate access to financial markets to fund strategy implementation

The sound strategy has allowed the Group to significantly improve financial and operational results during 2012 and 2016 period:

- Petromidia refinery achieved record production volumes, well above the designed capacity, and improved technical performance;
- Retail entities sales volumes increased;
- Consolidated financial net result reached positive levels in the last three years.

OUTLOOK FOR 2018

Market environment: For 2018 the Group budgeted a crude average price of 55 $/bbl. From computation of the difference between main petroleum products quotations and Urals quotation, weighted at 2018 approved budget production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur) results a Market refining margin valuated at 48.4 $/tonne.

In 2018, it is expected a positive growth trend in terms of gasoline and diesel demand for Group's key markets of 0.53% (annual average for Romania and Near Abroad).

Group operations: The Group will continue to carry on the operational initiatives which were identified and put in motion starting 2016, such as: Refining planning and production optimization, energy efficiency and organizational effectiveness, increase of non-fuel profitability, Asian Market trading profitability increase.

These operational initiatives have as main purpose the improvement of the operational results with minimum investment cost.

From the production perspective, in 2018, the Group has the following assumptions in terms of budget:

- ✓ Total feedstock planned to be processed in 2018 estimated at 5.45 million tonnes or 16.4 thousand tonnes/day.
- ✓ White products yield of 85.6%, -1% below actual 2017 mainly from different structure of feedstock (crude oil and SRGO).
- ✓ Increase in processing cost by 1.7 USD/tonne compared with 2017, mainly due to utilities expenses caused by higher utilities tariffs and negative impact from the exchange rate.

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected reach higher levels than in 2017.

Based on the Group's budget for 2018, its Long-Term Development Strategy and other matters mentioned above, Group Management considers that the preparation of the financial statements on a going concern basis is appropriate.

As at December 31, 2017 Rompetrol Rafinare SA resolved the issue in respect of its net assets referring to the fact that at the end of year 2015 net assets decreased to less than half the value of the subscribed share capital. During the year 2017, various analyses were developed to identify the best method of remediating the net asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following operations contributed in 2017 to the remedy of Rompetrol Rafinare S.A. net asset:

1. In November 2017 the company signed with KMG International NV a hybrid loan agreement in total amount of USD 72.2 million loan as a result of conversion of a commercial debt in front of KMG International NV (approximately RON 285.5 million as a result of assignment by Rompetrol Petrochemicals SRL in favor of KMG International NV of a commercial receivable held over the Company) (see note 11).

2. Starting December 31,2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, in respect of buildings category, from cost model to the revalued one (for details see notes 2 and 5).

c) Changes in accounting policies

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Group has no impact from application of this amendment.
- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Group has no impact from application of this amendment.
- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. None of these had a significant effect on the Group's financial statements:
  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation of buildings category in property, plant and equipment

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of buildings and constructions after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

Starting December 31, 2017, the Group elected to change the method of accounting for buildings category classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements.
Additional details are provided at Note 2b.

The Group applied the revaluation model prospectively.
After initial recognition, buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to Note 5.

d) Standards issued but not yet effective

The Group has not early adopted the following standards/interpretations:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
  The Group adopts the new standard IFRS 9 on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9.
  This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 as well as from further refinements of the impairment model which is currently being tested at the date of these financials. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Group will implement changes in classification of certain financial instruments.

  a) Classification and measurement
  The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

  b) Hedge accounting
  The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

  c) Impairment
  IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined after assessment of major categories of trade receivables that the loss allowance will increase by USD 1 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.
- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.
  IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
  The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Group performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.
  The Group is involved in refining and petrochemicals, wholesale and retail of petroleum products and related services (oilfield, logistics, maintenance, quality control).
  The Group analysed the main revenue streams which are comprised sales of crude oil, petroleum products and petrochemicals, under the main business segments: Downstream (retail and wholesale) and refinery, by applying the ''five steps'' model prescribed by IFRS 15:
    1. Identify the contract(s) with a customer
    2. Identify the performance obligations in the contract
    3. Determine the transaction price
    4. Allocate the transaction price to the performance obligations in the contract
    5. Recognize revenue when (or as) the entity satisfies a performance obligation

  Based on the results of review of contractual terms of principal types of contracts pertaining to each material revenue streams, the Group concluded that IFRS 15 will not have a significant impact compared with current revenue recognition.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment to the financial position or performance of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at Group level from application of this standard.
- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.
- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.
- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.
  These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.
- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.
- *The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**,* which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. None of these had a significant effect on the Group's financial statements:
  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no significant impact from application of this standard.
- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. None of these had a significant effect on the Group's financial statements:
  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment require entities to use audited actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

e) Foreign currency translation

The group's presentation currency is the US Dollar (or "USD") that is the functional currency of the Parent and is the currency of the primary economic environment and industry in which the Group operates.

Transactions and balances not already measured in USD, and that are measured in RON or other currencies, have been re-measured in USD as follows:

Monetary assets and liabilities

Cash and cash equivalents, receivables, payables and short-term loans have been translated into USD at the year-end exchange rate. Gain or loss on translation of these assets and liabilities is recorded in the income statement.

Non-monetary assets and liabilities

Non-monetary assets and liabilities are translated from their historical cost or valuation by applying the exchange rate USD/RON from the date of acquisition, valuation or contribution to the statement of financial position.

Consolidated statement of income

Consolidated statement of income items have been translated applying the exchange rate from the month when the items were initially recorded to the consolidated income statement.

Exchange gains and losses arising on the re-measurement that are not denominated in USD are credited/ charged to the consolidated Income Statement for the year.

Other matters

In Romania, the official exchange rates are published by the National Bank of Romania ("Central Bank" or "National Bank"), and are considered to be a reasonable approximation of market exchange rates.

The translation of RON denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could realize or settle in US dollars the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could retain or distribute the reported USD values of equity to its shareholders.

Romanian lei translation for information purposes basis

Amounts in Romanian lei are provided for information purpose basis only and are translated by multiplying the values in USD with the 31 December 2017 closing exchange rate of RON 3.8915= USD 1, for both 2017 and 2016 amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The matters presented below are considered to be the most important in understanding the judgments that are involved in preparing these consolidated financial statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that can lead to material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

- Impairment of Goodwill on acquisitions

The Group's impairment test for goodwill is based on fair value less costs to sell calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to undertake. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes (Note 4).

- Impairment of non- financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the carrying amounts for major property, plant and equipment are tested for impairment. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is higher of fair value less costs to sell, and value in use determined as the amount of estimated discounted future cash flows. Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand and product margins. Other factors that can lead to changes in estimates include restructuring plans and variation in regulatory environments. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 4 and Note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Provision for environmental liability

The Group is involved in refining and petrochemicals, wholesale and retail and other related services. Environmental damage caused by such substances may require the Group to incur restoration costs to comply with the relevant regulations, and to settle any legal or constructive obligation. Analysis and estimates are performed by the Group together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which disbursements are determined to be probable, are recognized as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognized provisions, the Group's income statement is impacted.

Further details on provision for environmental liability are provided in Note 16.

- Provision for decommissioning

The Group considers any provisions for decommissioning on acquisition of assets. In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected costs to dismantle and remove the depot from the site and the expected timing of those costs. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provision for decommissioning are provided in Note 16.

- Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on deferred tax assets are provided in Notes 13 and 22.

- Carrying value of trade and other receivables

The Group assesses at each reporting date the requirement for an allowance for impairment in trade and other receivables. The Company uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an allowance. The allowance is recognized where there is objective evidence that a particular trade receivable or a group of trade receivables have impaired.

- Carrying value of inventories

The Group considers on a regular basis the carrying value of inventories in comparison to expected use of items, impact of damaged or obsolete items, technical losses and a comparison to estimated net realizable value compared to cost, based on latest available information and market conditions. As applicable a reserve against the carrying value of inventories is made.

- Provision for litigations

The Group analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the case, the expected claim to be paid and the expected timing of the payments. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provisions relating to litigations are provided in Notes 16, 20 and 27.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If a Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

h) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquired a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized 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 analyses 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 recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables at amortized cost;
- Held-to-maturity investments, at amortized cost;
- Available-for-sale financial assets, at fair value with the changes recognized directly in equity;

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available for sale financial assets

Available for sale financial assets include equity investments. These are classified as available for sale assets are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available for sale assets reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale assets reserve to the statement of profit or loss in finance costs.

Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available for sale assets category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings at amortized cost

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Property, plant and equipment

Property, plant and equipment of the Company are stated at cost less cumulative depreciation, except for buildings that are periodically revalued and booked at fair value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been commissioned, such as repairs and maintenance are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Starting December 31, 2017, the Group changed its accounting policies regarding the recognition and measurement for buildings category, from cost model to the revalued one. The Group has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Group determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

Buildings category are measured at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation. Valuations need to be performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the following estimated useful lives.

Buildings and other constructions	10 to 100 years
Storage tanks	20 to 30 years
Tank cars	25 years
Machinery and other equipment	3 to 20 years
Gas pumps	8 to12 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Computers	3 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following the changing in the accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revaluated as at December 31, 2017. The remaining life utilization were estimated by the authorised appraiser based on ANEVAR's Assessment Guide GEV 500 (in accordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018.

When assets are sold or derecognized, their cumulative costs and depreciation are eliminated and any income or loss resulting from their disposal is included in the income statement.

Assets held under finance leases are recorded in the statement of financial position and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

k) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

Intangible assets consist of software and licenses and are amortized on a straight-line basis over 3 to 5 years.

Development costs for specific projects which are reasonably anticipated to be recovered through commercial activity as well as expenditure on acquired computer software licenses are capitalized and amortized using the straight-line method over their useful lives, generally 3 years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programs are expensed as incurred.

l) Impairment of non-financial assets

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is property, plant and equipment stated at revalued amount in which case the impairment loss is treated as a revaluation decrease.
When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicated that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the

cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

m) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in the income statement net of any reimbursement. 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. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

Additional comments on the following specific liabilities are:

- *Decommissioning liability*

Decommissioning costs are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the income statement as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are added to or deducted from the cost of the assets.

- *Environmental liabilities*

Environmental expenditure that relates to current or future revenues is expensed or capitalized as appropriate. Expenditure that relates to an existing condition caused by past operations and that does not contribute to current or future earnings is expensed.

The Group has an environmental policy which complies with existing legislation and any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Group has set up a monitoring system in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any known future environmental requirements.

The above-mentioned expenses are estimated based on the relevant environmental studies.

Liabilities for environmental remediation costs are recognized when environmental assessments or clean-ups are probable, and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. The Group has assets held under finance leases and that have been measured at their fair values at the date of acquisition.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, that represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term, net of any operating lease incentives received.

o) Inventories

Inventories raw material, petroleum products, including work-in-process are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, minus the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

p) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the receivable should be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

q) Cash and cash equivalents

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and sales incentive discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized, that the Group:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

In addition:

- Sales of goods are recognized when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognized when services are rendered.
- Interest income is recognized on a time-portion basis using the effective interest method.
- Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

s) Interest bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest method.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well through the amortization process.

t) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All the other costs are expensed in the period they occur.

Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

u) Retirement benefit costs

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under collective labor agreements in certain of the Group's entities, employees are entitled to specified retirement benefits, payable on retirement, if they are employed with these entities at the date of their retirement. These amounts are estimated as of the reporting date based on the following information: applicable benefits provided in the agreement; the number of employees with the relevant Group entities; and actuarial assumptions on future liabilities. The defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the income statement. All actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur for all defined benefit plans.

The Group has no other liabilities with respect to future pension, health and other costs for its employees.

v) Taxes

- *Current income tax*

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. The tax rates and tax laws used to compute the amount are those that are enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. 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 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
- 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 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 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
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient 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 profits will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized 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 income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

- *Sales tax*

Revenues, expenses and assets are recognized net of the amount of sales tax except:
- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

w) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

x) Foreign Currency Transactions

The Group translates its foreign currency transactions and balances into functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of transaction. Exchange rate differences arising on the settlement of monetary assets and liabilities or on reporting them at rates different from those at which they were initially recorded during the period or reported in the previous financial statements are recognized in the consolidated income statement in the period they arise.

y) Derivative Financial Instruments

The Group enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the Group primarily to risks of changes in fair value of crude oil and related oil products (commodity risk). The Group also uses financial instruments (primarily Options, Swaps and forwards) to hedge its risks associated with fair value fluctuation relating to certain firm commitments and forecasted transactions.

The use of financial derivatives is governed by the Group's policies approved by board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value hedge

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). The company hedges priced inventories (both raw materials and finished products) around BOS (based operated stock) using futures instruments for a period that approximately matches the operating cycle.

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss (see note 18).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in period profit or loss as they arise.

Cash Flow Hedge

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). Throughout a given period, the volatility associated with the oil market, both in crudes and in finished, is transmitted to the Company's refinery margin (difference between the purchase price of crude oil and the selling price of finished products). To reduce this volatility, the Company hedges the margin with a swap on a hedged basket as relevant for the period.

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see note 18).

z) Emission Rights

CO2 emission rights quota are allocated to the Group's refining and petrochemicals operations. For the period 2013-2020 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. Rompetrol Rafinare SA received its quota allocation for 2017 and the one for 2018 has been received at the end of February 2018. The Group accounts for the liability resulting from generating of these emissions using the net liability method. The actual emissions are not expected to exceed the certificates which the group will have in its accounts in CO2 EU Register at the time of annual compliance (April 2018). The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective group companies. Income is recognized only when excess certificates are sold on the market.

aa) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. INTANGIBLE ASSETS

Amounts in USD

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2016	**33,528,262**	**38,536,728**	**2,357,408**	**74,422,398**
Additions	2,418	63,716	1,790,316	1,856,450
Transfers from CIP	(72,269)	170,836	(98,567)	-
Transfers and reclassifications*	-	-	(26,805)	(26,805)
Closing balance as of December 31, 2016	**33,458,411**	**38,771,280**	**4,022,352**	**76,252,043**
Additions	441,718	33,165	858,246	1,333,129
Transfers from CIP	37,861	96,565	(134,426)	-
Transfers and reclassifications*	735,252	275,304	16,365	1,026,921
Closing balance as of December 31, 2017	**34,673,242**	**39,176,314**	**4,762,537**	**78,612,093**
Accumulated amortization				
Opening balance as of January 1, 2016	**(32,515,882)**	**(34,703,944)**	**(523,380)**	**(67,743,206)**
Charge for the year	(552,315)	(690,760)	-	(1,243,075)
Accumulated amortization of disposals	158,713	(158,713)	-	-
Closing balance as of December 31, 2016	**(32,909,484)**	**(35,553,417)**	**(523,380)**	**(68,986,281)**
Charge for the year	(615,276)	(758,081)	-	(1,373,357)
Closing balance as of December 31, 2017	**(33,524,760)**	**(36,311,498)**	**(523,380)**	**(70,359,638)**
Net book value				
As of December 31, 2016	**548,927**	**3,217,863**	**3,498,972**	**7,265,762**
As of December 31, 2017	**1,148,482**	**2,864,816**	**4,239,157**	**8,252,455**

*) *Includes, transfer to property, plant and equipment, reclassifications between categories and other adjustments;*

Major part of ‘‘Other” (Intangible Assets) relates to licenses.

Amounts in RON

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2016	**130,475,232**	**149,965,677**	**9,173,853**	**289,614,762**
Additions	9,410	247,951	6,967,015	7,224,376
Transfers from CIP	(281,235)	664,808	(383,573)	-
Transfers and reclassifications*	-	-	(104,312)	(104,312)
Closing balance as of December 31, 2016	**130,203,407**	**150,878,436**	**15,652,983**	**296,734,826**
Additions	1,718,946	129,062	3,339,864	5,187,872
Transfers from CIP	147,336	375,783	(523,119)	-
Transfers and reclassifications*	2,861,233	1,071,346	63,684	3,996,263
Closing balance as of December 31, 2017	**134,930,922**	**152,454,627**	**18,533,412**	**305,918,961**
Accumulated amortization				
Opening balance as of January 1, 2016	**(126,535,555)**	**(135,050,398)**	**(2,036,733)**	**(263,622,686)**
Charge for the year	(2,149,334)	(2,688,093)	-	(4,837,427)
Accumulated amortization of disposals	617,632	(617,632)	-	-
Closing balance as of December 31, 2016	**(128,067,257)**	**(138,356,123)**	**(2,036,733)**	**(268,460,113)**
Charge for the year	(2,394,347)	(2,950,072)	-	(5,344,419)
Closing balance as of December 31, 2017	**(130,461,604)**	**(141,306,195)**	**(2,036,733)**	**(273,804,532)**
Net book value				
As of December 31, 2016	**2,136,150**	**12,522,313**	**13,616,250**	**28,274,713**
As of December 31, 2017	**4,469,318**	**11,148,432**	**16,496,679**	**32,114,429**

4. GOODWILL

The carrying value of goodwill as of 31 December 2017 and 2016 was USD 82,871,706 (RON: 322,495,245).

The whole carrying amount of goodwill has been allocated to Downstream Romania Cash Generating Unit ("Downstream Romania CGU"). Two other cash generating units in the Group are: Refineries and Petrochemicals.

The Downstream Romania CGU comprises the retail and wholesale operations of Rompetrol Downstream SRL and the wholesale activity supported by the storage depots owned by Rom Oil S.A.

Impairment test

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2017 on the Downstream Romania cash generating units ("CGU"). Based on the impairment test no impairment has been identified. For further details see Note 6.

5. PROPERTY, PLANT AND EQUIPMENT

Amounts in USD

	Land	Buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost						
As of January 1, 2016	**70,158,567**	**897,975,694**	**1,189,432,815**	**122,759,947**	**73,815,700**	**2,354,142,723**
Acquisitions	-	-	105,966	988,499	58,491,759	59,586,224
Transfers from CIP	-	11,851,455	12,568,200	4,443,607	(28,863,262)	-
Disposals	-	(1,532,984)	(9,996,145)	(3,086,799)	(19,962)	(14,635,890)
Transfers and reclassifications*	-	(8,347)	(26,084)	34,431	(118,839)	(118,839)
As of December 31, 2016	**70,158,567**	**908,285,818**	**1,192,084,752**	**125,139,685**	**103,305,396**	**2,398,974,218**
Additions	-	2,077	416,670	470,497	83,137,840	84,027,084
Transfers from CIP	-	16,370,701	42,382,143	4,930,107	(63,682,951)	-
Revaluation adjustment	-	129,342,052	-	-	-	129,342,052
Disposals	-	(605,372)	(2,349,942)	(10,727,083)	(836)	(13,683,233)
Transfers and reclassifications*	-	(382,107,113)	(1,641,542)	(1,439,050)	(115,663)	(385,303,368)
As of December 31, 2017	**70,158,567**	**671,288,163**	**1,230,892,081**	**118,374,156**	**122,643,786**	**2,213,356,753**
Accumulated depreciation & Impairment						
As of January 1, 2016	**(78,373)**	**(459,434,385)**	**(594,783,545)**	**(95,642,159)**	**(28,923,732)**	**(1,178,862,194)**
Charge for the year	-	(26,044,186)	(63,416,506)	(5,074,257)	-	(94,534,949)
Accumulated depreciation of disposals	-	576,718	9,953,103	2,392,487	-	12,922,308
Impairment	-	-	-	-	(351,877)	(351,877)
Transfers and reclassifications*	-	(141,778)	124,973	16,212	-	(593)
As of December 31, 2016	**(78,373)**	**(485,043,631)**	**(648,121,975)**	**(98,307,717)**	**(29,275,609)**	**(1,260,827,305)**
Charge for the year	-	(27,057,742)	(61,735,456)	(5,895,439)	-	(94,688,637)
Accumulated depreciation of disposals	-	261,906	2,284,904	10,543,223	-	13,090,033
Impairment	-	(297,979)	-	-	(220,800)	(518,779)
Transfers and reclassifications*	-	382,107,113	-	2,040,000	-	384,147,113
As of December 31, 2017	**(78,373)**	**(130,030,333)**	**(707,572,527)**	**(91,619,933)**	**(29,496,409)**	**(958,797,575)**
Net book value as of December 31, 2016	**70,080,194**	**423,242,187**	**543,962,777**	**26,831,968**	**74,029,787**	**1,138,146,913**
Net book value as of December 31, 2017	**70,080,194**	**541,257,830**	**523,319,554**	**26,754,223**	**93,147,377**	**1,254,559,178**

*) *Includes, transfer to property, plant and equipment, reclassifications between categories and other adjustments;*

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Amounts in RON

	Land	Buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost						
As of January 1, 2016	**273,022,063**	**3,494,472,413**	**4,628,677,800**	**477,720,334**	**287,253,797**	**9,161,146,407**
Acquisitions	-	-	412,367	3,846,744	227,620,680	231,879,791
Transfers from CIP	-	46,119,937	48,909,150	17,292,297	(112,321,384)	-
Disposals	-	(5,965,607)	(38,899,998)	(12,012,278)	(77,682)	(56,955,565)
Transfers and reclassifications*	-	(32,482)	(101,506)	133,988	(462,462)	(462,462)
As of December 31, 2016	**273,022,063**	**3,534,594,261**	**4,638,997,813**	**486,981,085**	**402,012,949**	**9,335,608,171**
Additions	-	8,083	1,621,471	1,830,939	323,530,904	326,991,397
Transfers from CIP	-	63,706,583	164,930,109	19,185,511	(247,822,203)	-
Revaluation adjustment	-	503,334,595	-	-	-	503,334,595
Disposals	-	(2,355,805)	(9,144,799)	(41,744,443)	(3,253)	(53,248,300)
Transfers and reclassifications*	-	(1,486,969,830)	(6,388,061)	(5,600,063)	(450,103)	(1,499,408,057)
As of December 31, 2017	**273,022,063**	**2,612,317,887**	**4,790,016,533**	**460,653,029**	**477,268,294**	**8,613,277,806**
Accumulated depreciation & Impairment						
As of January 1, 2016	**(304,989)**	**(1,787,888,909)**	**(2,314,600,165)**	**(372,191,462)**	**(112,556,703)**	**(4,587,542,228)**
Charge for the year	-	(101,350,950)	(246,785,333)	(19,746,470)	-	(367,882,753)
Accumulated depreciation of disposals	-	2,244,298	38,732,500	9,310,363	-	50,287,161
Impairment	-	-	-	-	(1,369,329)	(1,369,329)
Transfers and reclassifications*	-	(551,729)	486,332	63,089	-	(2,308)
As of December 31, 2016	**(304,989)**	**(1,887,547,290)**	**(2,522,166,666)**	**(382,564,480)**	**(113,926,032)**	**(4,906,509,457)**
Charge for the year	-	(105,295,203)	(240,243,527)	(22,942,102)	-	(368,480,832)
Accumulated depreciation of disposals	-	1,019,207	8,891,704	41,028,952	-	50,939,863
Impairment	-	(1,159,585)	-	-	(859,243)	(2,018,828)
Transfers and reclassifications*	-	1,486,969,830	-	7,938,660	-	1,494,908,490
As of December 31, 2017	**(304,989)**	**(506,013,041)**	**(2,753,518,489)**	**(356,538,970)**	**(114,785,275)**	**(3,731,160,764)**
Net book value as of December 31, 2016	**272,717,074**	**1,647,046,971**	**2,116,831,147**	**104,416,605**	**288,086,917**	**4,429,098,714**
Net book value as of December 31, 2017	**272,717,074**	**2,106,304,846**	**2,036,498,044**	**104,114,059**	**362,483,019**	**4,882,117,042**

In 2017, Transfers and Reclassifications of USD 1.15 million (RON 4.48 million) represent transfer to intangibles, reclassifications between categories and other adjustments. Also, an additional transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset in amount of USD 382.1 million.

- *Construction in progress*

During 2017, Downstream continued the process of expending the network by opening new stations and rebranding the existing one. The value of investment was USD 21.7 million.

In 2017 out of the total acquisitions in construction in progress the most significant refers to the following projects of Rompetrol Rafinare SA: HDPE* Unit restart USD 4.2 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 12.5 million, Tank rehabilitation amounting to USD 5.2 million and Refinery and Petrochemicals annual turnaround amounting to USD 17.3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

*At December 31, 2017, the net book value of the HDPE plant is $ 23.7 million.

With the support and decision of the majority shareholder, the company started at the end 2017 the mechanical and organizational works for bringing the HDPE plant to operation. At the time of preparation of the financial statements, the mechanical works are completed, the restarting technological tests being carried out at these times (March 2018). In the near future, depending on the appropriate market moment, the actual putting into operation of the HDPE unit will take place.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 7.6 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 7.5 million, HDPE Unit restart amounting to USD 4.2 million and Refinery specific optimisation programs amounting to USD 13.3 million in respect of Rompetrol Rafinare SA.

During 2016, equipment and other assets in value of USD 6.1 million were commissioned in relation to of Rebranding project for the modernization of retail stations of Downstream.

In 2016 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery specific optimisation programs amounting to USD 7.65 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 4.93 million, Tank rehabilitation amounting to USD 4.3 million and Refinery 2017 turnaround amounting to USD 3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

In 2016 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 7.9 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR)amounting to USD 5 million, Refinery specific optimisation programs amounting to USD 5.8 million and Refinery 2017 turnaround amounting to USD 2.8 million in respect of Rompetrol Rafinare SA.

- *Disposals*

In 2017, out of the total USD 13.7 million disposed assets, USD 13.2 million refers to write-offs for Rompetrol Downstream.

In 2016, out of the total USD 14.6 million disposed assets, USD 9.5 million refers to change of catalysts for Rompetrol Rafinare S.A. and USD 4.9 million refers to write-offs for Rompetrol Downstream.

- *Borrowing costs capitalized*

The Group is financing part of its operations from borrowings and hence the cost of these borrowings related to acquisition of qualifying assets is capitalized as part of the cost of those qualifying assets. For the years ended at 31 December 2017 and 31 December 2016 no loans were taken specifically for investments and - no borrowing costs were capitalized.

- *Disposals through sales of subsidiaries and liquidations*

During 2017 and 2016 there was no disposal of companies.

- *Impairment*

The Group completes an annual assessment for any indication of impairment for all entities based on specific asset considerations, as applicable, and taking into consideration expectations on future estimated cash flows. Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2017 on the cash generating units (“CGUs”) listed below in Note 6.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Revaluation of buildings category

Starting December 31,2017, the Group changed its accounting policies regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. The Group has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Group determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Group's assets. Fair value of the buildings category was determined using the market comparable method. The valuations were performed by an independent appraiser and are based on proprietary databases of prices for properties of similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement. A net gain from the revaluation of the Group buildings category of USD 146,4 million in 2017 was recognized in OCI.

Reconciliation of carrying amount

	Buildings	
	mUSD	**mRON**
Carrying amount as at December 31, 2016*	**423**	**1,646**
Level 3 revaluation gain recognised due to change in accounting policy to revaluation model	174	677
Level 3 revaluation loss recognized (included in the profit and loss for the period)	(45)	(175)
Depreciation for the year	(27)	(105)
Additions/Disposals/Transfers and reclassifications	16	62
Carrying amount and fair value as at 31 December 2017	**541**	**2,148**

*The Group changed the accounting policy with respect to the measurement of buildings category as at December 31, 2017 on a prospective basis. Therefore, the fair value of the of buildings category was not measured at December 31, 2016.

If the buildings category was measured using the cost model, the carrying amounts would be, as follows:

	2017	
	mUSD	**mRON**
Cost	924	3,596
Accumulated depreciation and impairment	(512)	(1,992)
Net carrying amount	**412**	**1,604**

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 437.9 million (2016: USD 420.29 million) net, for securing banking facilities granted to Group entities.

6. IMPAIRMENT TEST

Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2017 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2017, the net book value of property plant and equipment for the cash generating units is the following: Refining USD 919 million, Petrochemicals USD 55 million, Downstream USD 207 million.

Refining

Refining CGU includes the operations of Petromidia Refinery and Vega Refinery. The recoverable amount of Refining CGU unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016: 9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

Petrochemicals

Petrochemicals CGU includes the petrochemical business of the group, which is included within Rompetrol Rafinare legal entity; the unit is involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016:9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

Downstream Romania

The Downstream Romania CGU comprises the retail and wholesale operations of Rompetrol Downstream SRL and the wholesale activity supported by the storage depots owned by Rom Oil S.A.

The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit. The discount rate applied to cash flow projections is 9.0% (2016 9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5 % (2016: 8.1%).

Key assumptions used in fair value less costs to sell calculations

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned CGUs are:

- Operating profit;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Following Operating profit margin on the basis of Net revenues were applied for the relevant Cash Generating Units:

	2018	2019	2020	2021	2022
Refining	2.8%	5.8%	5.6%	6.2%	5.3%
Petrochemicals	(2.9%)	(0.1%)	(0.8%)	0.6%	1.1%
Downstream Romania	2.2%	2.2%	2.0%	2.4%	2.9%

6. IMPAIRMENT TEST (continued)

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research.

Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes that it is very unlikely that changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

Refining

The break-even point for the current model is achieved under a decrease of 59.1% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.1%	2.4%	2.3%	2.5%	2.2%

Petrochemicals

The break-even point for the current model is achieved under a decrease of 57.3% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	(1.2%)	(0.1%)	(0.3%)	0.2%	0.5%

Downstream Romania

The break-even point for the current model is achieved under a decrease of Operating profit of 51.8% reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.0%	1.1%	1.0%	1.2%	1.4%

*Operating profit margins were computed based on net revenue.

7. INVESTMENTS

a) Investments in Consolidated Subsidiaries

Details of the Group consolidated subsidiaries at December 31, 2017 and 2016 are as follows:

Company name	Range of activity	Effective ownership December 31, 2017	Control December 31, 2017	Effective ownership December 31, 2016	Control December 31, 2016
Rompetrol Downstream S.R.L.	Retail Trade of Fuels and Lubricants	100.00%	100.00%	100.00%	100.00%
Rom Oil S.A.	Wholesale of Fuels; fuel storage	100.00%	100.00%	100.00%	100.00%
Rompetrol Logistics S.R.L.	Logistics operations	66.19%	100.00%	66.19%	100.00%
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100.00%	100.00%	100.00%	100.00%
Rompetrol Quality Control S.R.L.	Quality Control Services	100.00%	100.00%	100.00%	100.00%
Rompetrol Gas S.R.L.	LPG Sales	66.19%	100.00%	66.19%	100.00%

Effective ownership interests for the Group takes into consideration indirect shareholding weighted with corresponding Group ownership in the intermediate shareholder and this percentage is used for consolidation, while the control percent takes into consideration the total interest controlled directly and indirectly.

b) Available for sale Investments

	2017 USD	2016 USD	2017 RON	2016 RON
Other	18,583	18,583	72,316	72,316
Total	**18,583**	**18,583**	**72,316**	**72,316**

Other investments are investments in companies in Romania, which are held primarily for long-term growth potential.

8. INVENTORIES, NET

	2017 USD	2016 USD	2017 RON	2016 RON
Crude oil and other feedstock materials	148,316,687	110,510,568	577,174,387	430,051,877
Petroleum and petrochemical products	139,135,248	69,858,959	541,444,818	271,856,139
Work in progress	31,572,883	28,704,734	122,865,874	111,704,472
Spare parts	16,625,967	16,612,033	64,699,951	64,645,726
Consumables and other raw materials	5,743,935	5,583,758	22,352,523	21,729,194
Merchandises	10,434,929	6,787,215	40,607,526	26,412,447
Other inventories	8,765,119	8,725,268	34,109,461	33,954,380
Inventories provision	(17,970,943)	(16,690,970)	(69,933,925)	(64,952,910)
	342,623,825	**230,091,565**	**1,333,320,615**	**895,401,325**

8. INVENTORIES, NET (continued)

The inventories provision movement in 2017 and 2016 is provided below:

Movements in inventories reserve:

	2017 USD	2016 USD	2017 RON	2016 RON
Reserve as of January 1	**(16,690,970)**	**(19,479,973)**	**(64,952,910)**	**(75,806,315)**
Accrued provision	(3,864,942)	(6,103,255)	(15,040,422)	(23,750,817)
Write off	38,435	111,172	149,570	432,626
Reversal of provision	2,546,534	8,781,086	9,909,837	34,171,596
Reserve as of December 31	**(17,970,943)**	**(16,690,970)**	**(69,933,925)**	**(64,952,910)**

The inventories provisions mainly represent the provision for net realizable value in relation to refineries and petrochemical plant inventories and provision of old spare parts.

The Group has pledged inventories in gross amount of USD 301.4 million (2016: USD 170.16 million) to secure banking facilities.

9. TRADE AND OTHER RECEIVABLES

As mentioned in Note 1 the Parent company and its subsidiaries are part of KMG International Group. The balances with related parties are disclosed in Note 24.

	2017 USD	2016 USD	2017 RON	2016 RON
Trade receivables	272,145,734	252,476,726	1,059,055,124	982,513,180
Advances to suppliers	9,061,490	9,141,906	35,262,788	35,575,727
Sundry debtors	84,011,319	31,018,813	326,930,048	120,709,711
VAT to be recovered	12,050	71,450	46,893	278,048
Other receivables	176,224,862	87,603,703	685,779,050	340,909,810
Provision for bad and doubtful debts	(105,245,948)	(92,735,110)	(409,564,607)	(360,878,681)
	436,209,507	**287,577,488**	**1,697,509,296**	**1,119,107,795**

Movement in the above provision is disclosed below and in Note 20.

Included in Sundry debtors in 2017 is an amount of USD 3.05 million (2016: USD 2.75 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2007-2010 period, and an additional USD 3.53 million (2016: USD 3.2 million) for payment made by Rompetrol Rafinare SA to Navodari City Hall following the fiscal audit on local taxes (in respect of revaluation of buildings) (see Note 27). Also, included in Sundry debtors category is an amount of USD 73.4 million relating to Rompetrol Petrochemicals SRL receivables against KMGI as a result of Rompetrol Petrochemicals SRL assignment of receivables to KMGI starting with November 2017 for Rompetrol Rafinare SA debts.Included in Sundry debtors in 2016 is an amount of USD 20.99 million (2015: USD 22.79 million) for payment made by Rompetrol Rafinare for antidumping and countervailing taxes for Biodiesel import (in respect with KMGI).

9. TRADE AND OTHER RECEIVABLES (continued)

Out of the total balance for other receivables of USD 176.2 million, an amount of USD 30.02 million (2016: USD 24.74 million) relates to Competition Council fine from Downstream and USD 112.8 million relates to cash pooling receivables for: Rompetrol Downstream USD 92.9 million (2016: USD 15.4 million), Rompetrol Gas USD 19.9 million (2016: USD 8.34 million), and Rompetrol Quality Control USD 0.02 million (2016: 0.61 million). Also, in other receivables an amount of USD 13.99 million (2016: USD 13.81 million) refers to excise receivables in Rompetrol Rafinare.

	2017 USD	2016 USD	2017 RON	2016 RON
Sundry debtors	84,011,319	31,018,813	326,930,048	120,709,711
Other receivables	176,224,862	87,603,703	685,779,050	340,909,810
Provision for sundry debtors and other receivables	(32,772,120)	(26,520,402)	(127,532,703)	(103,204,142)

Out of the total amount of other receivables and sundry debtors of USD 260.2 million (2016: USD 118.6 million) an amount of USD 32.77 million (2016: USD 26.52 million) is provisioned.

The movement in provision for doubtful debts for trade and other receivables is as follows:

	2017 USD	2016 USD	2017 RON	2016 RON
Balance at the beginning of the year	**(92,735,110)**	**(93,925,432)**	**(360,878,681)**	**(365,510,819)**
Impairment losses recognized on receivables	(1,933,470)	(1,347,495)	(7,524,099)	(5,243,777)
Impairment losses reversed	2,028,308	2,049,147	7,893,161	7,974,256
Translation differences	(12,605,676)	488,670	(49,054,988)	1,901,659
Balance at the end of the year	**(105,245,948)**	**(92,735,110)**	**(409,564,607)**	**(360,878,681)**

As at 31 December, the ageing analysis of trade receivables is as follows:

	USD		Past due but not impaired				
	Total	Neither past due not impaired	1-30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	**199,671,906**	135,523,263	28,655,877	6,894,093	3,622,342	1,790,045	23,186,286
2016	**186,262,018**	101,005,281	23,216,368	9,435,088	6,666,049	5,063,161	40,876,071

	RON		Past due but not impaired				
	Total	Neither past due not impaired	1-30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	**777,023,220**	527,388,776	111,514,345	26,828,363	14,096,344	6,965,960	90,229,432
2016	**724,838,641**	393,062,049	90,346,496	36,716,645	25,940,930	19,703,291	159,069,230

As at 31 December 2017, trade receivables at initial value of USD 72.47 million (2016: USD 66.21 million) were impaired and fully provided for. See below for the movements in the provision for impairment of trade receivables.

9. TRADE AND OTHER RECEIVABLES (continued)

	Individually impaired	Collectively impaired	Total
	USD	USD	USD
At 1 January 2016	**51,110,929**	**17,090,712**	**68,201,641**
Charge for the year	949,986	395,857	1,345,843
Unused amounts reversed	(262,489)	(721,003)	(983,492)
Exchange rate differences	(1,400,328)	(948,956)	(2,349,284)
At 31 December 2016	**50,367,367**	**15,847,341**	**66,214,708**
Charge for the year	1,111,745	478,710	1,590,455
Unused amounts reversed	4,715	(170,937)	(166,222)
Exchange rate differences	4,827,235	1,848,772	6,676,007
At 31 December 2017	**54,975,570**	**17,498,258**	**72,473,828**

	Individually impaired	Collectively impaired	Total
	RON	RON	RON
At 1 January 2016	**198,898,180**	**66,508,507**	**265,406,687**
Charge for the year	3,696,871	1,540,478	5,237,349
Unused amounts reversed	(1,021,476)	(2,805,783)	(3,827,259)
Exchange rate differences	(5,449,376)	(3,692,862)	(9,142,238)
At 31 December 2016	**196,004,609**	**61,669,930**	**257,674,539**
Charge for the year	4,326,354	1,862,900	6,189,254
Unused amounts reversed	18,348	(665,201)	(646,853)
Exchange rate differences	18,785,185	7,194,497	25,979,682
At 31 December 2017	**213,937,429**	**68,094,475**	**282,031,904**

Trade receivables totaling USD 127.85 million (RON 497.52 million) as at December 31, 2017 and USD 132.18 million (RON 514.38 million) as at December 31, 2016 are pledged to obtain credit facilities (see Notes 12 and 15).

10.CASH AND CASH EQUIVALENTS

	2017	2016	2017	2016
	USD	USD	RON	RON
Cash at bank	10,040,822	14,472,800	39,073,859	56,320,901
Cash on hand	2,361,831	1,196,646	9,191,065	4,656,748
Cash equivalents	189,540	140,852	737,595	548,126
	12,592,193	**15,810,298**	**49,002,519**	**61,525,775**

Included in cash at bank is USD 1.77 million (RON 6.89 million) as at December 31, 2017 and USD 1.54 million (RON 5.99 million) as at December 31, 2016 representing cash collateral for certain bank facilities (see Note 12 and 15). Cash equivalents represent mainly cheques in the course of being cashed.

11.EQUITY

As of December 31, 2017 and 2016 the share capital consisted of 44,109,205,726, authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at December 31, 2017 is as follows:

December 31, 2017

Shareholders	Ownership	Amount per statutory documents RON	Amount under IFRS USD	Amount under IFRS RON
KMG International NV	48.11%	2,122,250,642	704,057,130	2,739,838,321
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,545,219,507
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	368,463,841
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,837,670
Others (not State or KMGI Group)	0.67%	29,562,686	9,807,428	38,165,606
Total	**100%**	**4,410,920,571**	**1,463,323,897**	**5,694,524,945**

Shareholders' structure as at December 31, 2016 was as follows:

December 31, 2016

Shareholders	Ownership	Amount per statutory documents RON	Amount under IFRS USD	Amount under IFRS RON
KMG International NV	48.11%	2,122,250,642	704,057,130	2,739,838,321
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,545,219,507
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	368,463,841
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,837,670
Others (not State or KMGI Group)	0.67%	29,562,686	9,807,428	38,165,606
Shareholders	**100%**	**4,410,920,571**	**1,463,323,897**	**5,694,524,945**

There were no changes in the statutory value of Rompetrol Rafinare SA issued share capital in 2017 and 2016.

Share premium and effect of transfers with equity holders

Share premium and effect of transfers with equity holders are the result of conversion of bonds into ordinary shares as at September 30, 2010 in favor of the Romanian State represented by the Ministry of Finance, following the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

The transactions resulted in an impact on the Effect of transfer with equity holders reserve amounting USD 596.83 million and share premium of USD 74 million.

11. EQUITY (continued)

Hybrid Loan

In 2012, USD 800 million of the total outstanding balance of the loan payable to KMG International NV was converted into an unsecured hybrid loan, repayable after 51 years. During 2013, an additional USD 200 million were converted (USD 150 million related to Rompetrol Rafinare and USD 50 million to Rompetrol Dowstream), the hybrid loan amounting to USD 1,000 million. The loan is subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 15% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- ✓ the company records net profit after tax in the year
- ✓ the company will be able to distribute dividends as per the Romanian law requirements

In 2017 an additional USD 72.2 million related to Rompetrol Rafinare SA were converted to hybrid loan repayable after 51 years. As of December 31, 2017, the total value of the hybrid loan is amounting USD 1,072 million. The additional loan is subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- ✓ the company records net profit after tax in the year
- ✓ the company will be able to distribute dividends as per the Romanian law requirements

Also, in 2017 management carried out an assessment on the potential hybrid loan interest liability and recorded an amount of USD 14.6 million, based on the projected profitability of the business for the upcoming period.

Revaluation reserve

Starting December 31,2017, the Group changed its accounting policies regarding the recognition and measurement of its non-current assets, in respect of buildings category, from cost model to the revalued one. The Group has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Group determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Group's assets. Fair value of the buildings category was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices for properties of similar nature, location and condition. A gain from the revaluation of the Group buildings category of USD 146,4 million in 2017 was recognized in OCI.

12. LONG-TERM BORROWINGS FROM BANKS

	2017 USD	2016 USD	2017 RON	2016 RON
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.	-	127,850,463	-	497,530,077
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Rafinare: The exposure is composed by 4 loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.	-	65,556,435	-	255,112,867
Amount payable within one year principal	**-**	**(244,093)**	**-**	**(949,888)**
Total	**-**	**193,162,805**	**-**	**751,693,056**

	2017 USD	2016 USD	2017 RON	2016 RON
One year or less - principal	-	244,093	-	949,888
One year or less - accrued interest long-term loans	-	-	-	-
Between two and five years	-	193,162,805	-	751,693,056
Total	**-**	**193,406,898**	**-**	**752,642,944**

The loans are secured with pledges on property plant and equipment of USD 437.9 million (2016: USD 420.29), inventories of USD 301.4 million (2016: USD 170.16) and trade receivables of USD: 127.8 million (2016: USD 132.18 million).

The club loan with Raiffeisen/BCR/ING/Unicredit is secured with a USD 200 million Corporate Guarantee by NC KazMunayGas JSC with a maturity of 5 years. The undrawn amount from the total facility as at December 31, 2017 is in amount of USD 24.17 million.

All the financial covenants applicable were complied with as of December 31, 2017.

13. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax, net balances are presented in the statement of financial position as follows:

	2017 USD	2016 USD	2017 RON	2016 RON
Deferred tax assets	(36,221,657)	(63,468,579)	(140,956,577)	(246,987,975)
Deferred tax liabilities	3,715,861	306,570	14,460,273	1,193,017
Deferred tax (asset) / liability, net	**(32,505,796)**	**(63,162,009)**	**(126,496,304)**	**(245,794,958)**

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The deferred tax (assets) /liabilities are comprised of the tax effect of the temporary differences related to:

USD

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	125,006,263	41,141,006	174,323,544	340,470,813
Inventories	82,619	-	-	82,619
Provisions	(65,525,531)	(6,784,469)	-	(72,310,000)
Tax losses	(454,374,481)	(17,078,750)	-	(471,453,231)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	**(394,762,555)**	**17,277,787**	**174,323,544**	**(203,161,224)**
Deferred tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	20,001,002	6,582,561	27,891,767	54,475,330
Inventories	13,219	-	-	13,219
Provisions	(10,484,085)	(1,085,515)	-	(11,569,600)
Tax losses	(72,699,917)	(2,732,600)	-	(75,432,517)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	**(63,162,009)**	**2,764,446**	**27,891,767**	**(32,505,796)**

RON

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	191,610	-	-	191,610
Property, plant and equipment	486,461,872	160,100,225	678,380,071	1,324,942,168
Inventories	321,512	-	-	321,512
Provisions	(254,992,604)	(26,401,761)	-	(281,394,365)
Tax losses	(1,768,198,293)	(66,461,956)	-	(1,834,660,249)
Other	(2,580)	-	-	(2,580)
Total temporary differences (asset)/liability	**(1,536,218,483)**	**67,236,508**	**678,380,071**	**(790,601,904)**
Deferred tax effect				
Intangible assets	30,657	-	-	30,657
Property, plant and equipment	77,833,899	25,616,037	108,540,812	211,990,748
Inventories	51,442	-	-	51,442
Provisions	(40,798,817)	(4,224,282)	-	(45,023,099)
Tax losses	(282,911,727)	(10,633,913)	-	(293,545,640)
Other	(412)	-	-	(412)
Deferred tax (asset)/liability recognized	**(245,794,958)**	**10,757,842**	**108,540,812**	**(126,496,304)**

The deferred tax (assets) /liabilities recognized at each company level is presented below:

USD

Deferred tax (asset)/liability recognized	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Rompetrol Rafinare SA	(60,704,133)	-	24,482,476	(36,221,657)
Rompetrol Downstream S.R.L.	(2,764,446)	2,764,446	1,898,858	1,898,858
Rom Oil S.A.	-	-	1,474,011	1,474,011
Rompetrol Gas S.R.L.	306,570	-	36,422	342,992
Deferred tax (asset)/liability recognized	**(63,162,009)**	**2,764,446**	**27,891,767**	**(32,505,796)**

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

RON

Deferred tax (asset)/liability recognized	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Rompetrol Rafinare SA	(236,230,134)	-	95,273,555	(140,956,578)
Rompetrol Downstream S.R.L.	(10,757,842)	10,757,842	7,389,406	7,389,406
Rom Oil S.A.	-	-	5,736,114	5,736,114
Rompetrol Gas S.R.L.	1,193,017	-	141,736	1,334,753
Deferred tax (asset)/liability recognized	**(245,794,959)**	**10,757,842**	**108,540,811**	**(126,496,305)**

USD

2016	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	102,946,669	22,059,594	-	125,006,263
Inventories	82,619	-	-	82,619
Provizions	(65,525,531)	-	-	(65,525,531)
Tax losses	(410,561,444)	(43,813,038)	-	(454,374,482)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	**(373,009,112)**	**(21,753,444)**	**-**	**(394,762,556)**
Deferred tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	16,471,467	3,529,535	-	20,001,002
Investments	-	-	-	-
Inventories	13,219	-	-	13,219
Provizions	(10,484,085)	-	-	(10,484,085)
Tax losses	(65,689,831)	(7,010,086)	-	(72,699,917)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	**(59,681,458)**	**(3,480,551)**	**-**	**(63,162,009)**

RON

2016	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	191,610	-	-	191,610
Property, plant and equipment	400,616,962	85,844,910	-	486,461,872
Inventories	321,512	-	-	321,512
Provisions	(254,992,604)	-	-	(254,992,604)
Tax losses	(1,597,699,859)	(170,498,437)	-	(1,768,198,296)
Other	(2,580)	-	-	(2,580)
Total temporary differences (asset)/liability	**(1,451,564,959)**	**(84,653,527)**	**-**	**(1,536,218,486)**
Deferred tax effect				
Intangible assets	30,657	-	-	30,657
Property, plant and equipment	64,098,714	13,735,185	-	77,833,899
Inventories	51,442	-	-	51,442
Provisions	(40,798,817)	-	-	(40,798,817)
Tax losses	(255,631,977)	(27,279,750)	-	(282,911,727)
Other	(412)	-	-	(412)
Deferred tax (asset)/liability recognized	**(232,250,393)**	**(13,544,565)**	**-**	**(245,794,958)**

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The ability of the Group to obtain recovery of its deferred tax asset depends on the entities ability, where tax losses have arisen to generate sufficient taxable income to cover the applicable tax losses available. Management considers that future taxable income will be generated for recovery of the available tax losses where it has recognized a corresponding deferred tax asset.

See also note 22 for details for the income tax rate and other related matters.

Deferred tax assets and liabilities cannot be offset between the companies from Romania. The local fiscal law does not define the concept of "Fiscal Group", therefore the fiscal losses cannot be offset between companies within the same country either.

14.TRADE AND OTHER PAYABLES

	2017 USD	2016 USD	2017 RON	2016 RON
Trade payables	765,953,098	628,497,691	2,980,706,488	2,445,798,768
Advances from customers	26,318,867	21,064,941	102,419,869	81,974,218
Excise taxes	27,500	-	107,016	-
Special found tax for oil products	7,082,443	6,404,729	27,561,327	24,924,003
VAT payable	33,555,506	27,329,857	130,581,252	106,354,139
Profit tax payable	758,592	185,336	2,952,061	721,235
Other taxes payable	(25,516)	(620,103)	(99,296)	(2,413,131)
Employees and social obligations	5,275,852	2,891,425	20,530,978	11,251,980
Deferred revenues	5,579,121	5,801,965	21,711,149	22,578,347
Other liabilities	122,141,497	97,015,834	475,313,636	377,537,118
Total	**966,666,960**	**788,571,675**	**3,761,784,480**	**3,068,726,677**

The Group entered into a cash pooling contract for optimizing cash, with KMG Rompetrol S.R.L. ("Master Company"). The amounts in balance as of December 31, 2017 are included in other liabilities, for the following companies: Rompetrol Rafinare S.A. USD 77.85 million and Romoil USD 0.47 million. Rompetrol Downstream S.R.L., Rompetrol Gas and Rompetrol Quality Control S.R.L. have a positive balance included in other receivables (see note 9) amounting to USD 92.9 million, USD 19.9 million and 0.02 million respectively.

Also in other liabilities are included short term guarantees in Rompetrol Downstream S.R.L., in amount of USD 3.92 million (2016: USD 3.45 million).

15. SHORT-TERM DEBT

	2017 USD	2016 USD	2017 RON	2016 RON
Bancpost Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018. Drawings in USD/EUR/RON.	8,102,477	20,644,165	31,530,788	80,336,768
Current portion of long-term debt	**-**	**244,093**	**-**	**949,888**
	224,063,232	**20,888,258**	**871,942,066**	**81,286,656**

15. SHORT-TERM DEBT (continued)

	2017 USD	2016 USD	2017 RON	2016 RON
Borrowings from shareholders and related parties				
KMG International N.V. Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 250 million, for USD 50 million maturity date - December 31, 2018, for USD 200 million maturity date is on request, assignment of receivables, real movable security interest over movable assets; real movable security interest over the participations over Rompetrol Logistics SRL, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil SA; real movable security interest over the bank accounts. The unused amounts as of December 31, 2017 is in amount of USD 122.89 million.	127,113,904	196,066,903	494,663,757	762,994,353
Rompetrol Financial Group Rompetrol Rafinare SA:Short-term facility for working capital needs in amount of up to USD 29.5 million, maturity date - December 31, 2018. The facility has been fully used.	29,551,587	26,723,677	115,000,001	103,995,189
KMG International N.V. Rompetrol Downstream SRL: Working capital facility for USD 39.2 million. Maturity date is December 31, 2018 with the possibility to be extended automatically with the agreement of both parties.	546,257	17,261,257	2,125,759	67,172,182
Midia Marine Terminal Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of RON 27.2 million, maturity date December 31, 2018. The facility has been fully used.	6,992,445	7,000,000	27,211,100	27,240,500
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - January 10, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	3,340,614	3,020,937	12,999,999	11,755,976
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - February 28, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	2,878,068	2,602,654	11,200,002	10,128,228
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - January 14, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	1,798,792	1,626,659	6,999,999	6,330,143
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date -January 3, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	796,608	720,377	3,100,000	2,803,347
Accrued interest	**3,193,509**	**13,231,505**	**12,427,538**	**51,490,402**
	176,211,784	**268,253,969**	**685,728,155**	**1,043,910,320**

15.SHORT-TERM DEBT (continued)

All the financial covenants applicable were complied with as of December 31, 2017.

All loans are interest bearing and the effective weighted average interest rates per currency are the following: EUR 3.3% (2016: 2.98%), RON 4.30% (2016: 4.20%) and USD 3.20% (2016: 3.17%).

The loans bearing guarantees are secured with pledges on property plant and equipment of USD 437.9 million (2016: USD 420.29), inventories of USD 301.4 million (2016: USD 170.16) and trade receivables of USD: 127.84 million (2016: USD 132.18 million).

The movement in loans is presented below:

USD	At 1 January 2017	Movement	At 31 December 2017
Long-term borrowings	193,406,898	(193,406,898)	-
Short-term borrowings banks	20,644,165	203,287,057	223,931,222
Short term borrowings from shareholders	255,022,464	(82,004,189)	173,018,275
Interest Short term borrowings from shareholders	13,231,505	(10,037,996)	3,193,509
Interest Short-term borrowings banks	244,093	(112,083)	132,010
Total	**482,549,125**	**(82,274,109)**	**400,275,016**

RON	At 1 January 2017	Movement	At 31 December 2017
Long-term borrowings	752,642,944	(752,642,944)	-
Short-term borrowings banks	80,336,768	791,091,581	871,428,349
Short term borrowings from shareholders	992,419,918	(319,119,301)	673,300,617
Interest Short term borrowings from shareholders	51,490,402	(39,062,864)	12,427,538
Interest Short-term borrowings banks	949,888	(436,171)	513,717
Total	**1,877,839,920**	**(320,169,699)**	**1,557,670,221**

16. PROVISIONS

Provisions comprise the following:

	2017 USD	2016 USD	2017 RON	2016 RON
Non-current provisions	85,001,042	76,429,343	330,781,551	297,424,788
Total Provisions	**85,001,042**	**76,429,343**	**330,781,551**	**297,424,788**

The movement in provisions is presented below:

USD	At 1 January 2017	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2017
Provision for retirement benefit	6,958,404	1,013,730	264,965	-	8,237,099
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	65,595,731	-	6,788,744	-	72,384,475
Other provisions	3,861,722	-	3,508,734	(3,004,474)	4,365,982
Total	**76,429,343**	**1,013,730**	**10,562,443**	**(3,004,474)**	**85,001,042**

16.PROVISIONS (continued)

RON	At 1 January 2017	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2017
Provision for retirement benefit	27,078,629	3,944,932	1,031,110	-	32,054,671
Provision for restructuring	52,481	-	-	-	52,481
Environmental provisions	255,265,787	-	26,418,394	-	281,684,181
Other provisions	15,027,891	-	13,654,238	(11,691,911)	16,990,218
Total	**297,424,788**	**3,944,932**	**41,103,742**	**(11,691,911)**	**330,781,551**

The movement in other provisions from 2017 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 3 million) and also a provision that was booked in relation to fiscal controls for the period 2011 - 2015 in relation to Rompetrol Rafinare in amount of USD 3.5 million (see note 26).

USD	At 1 January 2016	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2016
Provision for retirement benefit	6,550,536	1,029,432	(621,564)	-	6,958,404
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	65,595,731	-	-	-	65,595,731
Other provisions	6,876,964	-	-	(3,015,242)	3,861,722
Total	**79,036,717**	**1,029,432**	**(621,564)**	**(3,015,242)**	**76,429,343**

RON	At 1 January 2016	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2016
Provision for retirement benefit	25,491,411	4,006,035	(2,418,817)	-	27,078,629
Provision for restructuring	52,481	-	-	-	52,481
Environmental provisions	255,265,787	-	-	-	255,265,787
Other provisions	26,761,705	-	-	(11,733,814)	15,027,891
Total	**307,571,384**	**4,006,035**	**(2,418,817)**	**(11,733,814)**	**297,424,788**

An additional environmental provision for site restoration in amount of USD 6.8 million was been recognised in 2017 for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. During 2012 an evaluation report was issued by the third-party expert estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 5-year period, a discounted cash flow cost estimate of USD 72.3 million has been provided by the Group. Currently, the prequalification stage is in progress and considering the further bidding process and final contract negotiation, works are expected to start during the second quarter of 2018.

Under the collective labor agreements that certain of the Group's entities have in force it is provided that, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with Group entities at the date of their retirement. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the relevant Group entities; and actuarial assumptions regarding mortality, staff turnover etc. These liabilities are recorded at their fair values as of the balance sheet date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 4.52% (2016: 3.49%), with an expected rate of long-term salary increase 3.46% (2016: 2.23%).

16.PROVISIONS (continued)

Amounts recognized in profit or loss in respect of this obligation is as follows:

	2017 USD	2016 USD	2017 RON	2016 RON
Interest on obligation	73,638	82,664	286,562	321,687
Service cost	362,129	337,661	1,409,225	1,314,008
Benefits paid (due to restructuring/retirement)	(170,802)	(1,041,889)	(664,676)	(4,054,511)
Total	**264,965**	**(621,564)**	**1,031,111**	**(2,418,816)**

The amounts included in the statement of financial position arising from the retirement benefit obligation are as follows:

	2017 USD	2016 USD	2017 RON	2016 RON
Opening balance	**6,958,404**	**6,550,536**	**27,078,629**	**25,491,411**
Amounts recognized in income statement	264,965	(621,564)	1,031,111	(2,418,816)
Actuarial losses / (gains) recorded in the year (amounts recognized in "Other comprehensive income")	1,013,730	1,029,432	3,944,931	4,006,034
Closing balance	**8,237,099**	**6,958,404**	**32,054,671**	**27,078,629**

The charge for the year is included in the salaries expenses in the income statement for 2017.

It is estimated that there are no significant liabilities relating to the provisions that will arise in the twelve months to 31 December 2018.

17.REVENUES

	2017 USD	2016 USD	2017 RON	2016 RON
Gross revenues from petroleum products production	3,714,045,112	3,214,137,201	14,453,206,553	12,507,814,918
Gross revenues from petroleum products trading	158,696,220	97,966,467	617,566,340	381,236,506
Revenues from petrochemicals production	189,911,561	179,453,911	739,040,840	698,344,895
Revenues from petrochemicals trading	1,414,938	817,893	5,506,231	3,182,831
Revenues from other merchandise sales	72,844,849	60,656,757	283,475,730	236,045,770
Revenues from utilities sold	1,877,216	1,785,448	7,305,186	6,948,071
Revenues from transportation fees	1,820,568	1,412,917	7,084,740	5,498,367
Revenues from rents and other services	10,477,873	10,218,792	40,774,643	39,766,429
Gross Revenues	**4,151,088,337**	**3,566,449,386**	**16,153,960,263**	**13,878,837,787**
Less sales taxes	(947,071,453)	(1,029,822,055)	(3,685,528,559)	(4,007,552,527)
Less commercial discounts	(111,009,556)	(96,117,303)	(431,993,687)	(374,040,485)
Total	**3,093,007,328**	**2,440,510,028**	**12,036,438,017**	**9,497,244,775**

Total Revenues increased mainly due to the volatility of international prices for petroleum products and by the increase in the volume of products sold compared to last year. The increased price of crude oil resulted in increased prices of refined products and corresponding revenues.

18.COST OF SALES

	2017 USD	2016 USD	2017 RON	2016 RON
Crude oil and other raw materials	2,421,981,270	1,852,733,541	9,425,140,113	7,209,912,578
Consumables and other materials	13,400,239	12,586,035	52,147,030	48,978,555
Utilities	68,681,881	65,359,418	267,275,540	254,346,175
Staff costs	25,456,218	24,192,390	99,062,872	94,144,686
Transportation	154,559	111,208	601,466	432,766
Maintenance and repairs	22,075,229	20,663,840	85,905,754	80,413,333
Insurance	1,421,363	1,661,830	5,531,234	6,467,011
Environmental expenses	237,943	230,111	925,955	895,477
Other expenses	10,132,264	14,288,411	39,429,705	55,603,351
Cash production cost	**2,563,540,966**	**1,991,826,784**	**9,976,019,669**	**7,751,193,932**
Depreciation and amortization	64,456,593	66,929,330	250,832,832	260,455,488
Production costs	**2,627,997,559**	**2,058,756,114**	**10,226,852,501**	**8,011,649,420**
Plus: Change in inventories	(40,397,753)	8,516,791	(157,207,856)	33,143,092
Less: Own production of property, plant & equipment	(1,900,801)	(1,422,672)	(7,396,967)	(5,536,328)
Cost of petroleum products trading	129,637,433	77,943,495	504,484,071	303,317,111
Cost of petrochemicals trading	1,593,075	887,738	6,199,451	3,454,632
Cost of merchandise sold	57,202,472	48,037,332	222,603,420	186,937,277
Cost of utilities resold	953,451	854,113	3,710,355	3,323,781
Realized (gains)/losses on derivatives	11,545,320	(2,179,570)	44,928,613	(8,481,797)
Total	**2,786,630,756**	**2,191,393,341**	**10,844,173,588**	**8,527,807,188**

19.SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING LOGISTIC COSTS

	2017 USD	2016 USD	2017 RON	2016 RON
Staff costs	19,348,644	19,163,842	75,295,250	74,576,091
Utilities	4,171,180	4,370,437	16,232,147	17,007,556
Transportation	47,971,631	41,709,788	186,681,602	162,313,640
Professional and consulting fees	37,034,860	23,839,292	144,121,158	92,770,605
Royalties and rents	5,743,807	5,580,172	22,352,025	21,715,239
Consumables	296,505	578,712	1,153,849	2,252,058
Marketing	4,541,636	4,281,067	17,673,776	16,659,772
Taxes	2,371,293	3,855,649	9,227,887	15,004,258
Communications	834,292	813,677	3,246,647	3,166,424
Insurance	1,073,678	1,038,749	4,178,218	4,042,292
IT related expenditures	9,309,492	8,422,902	36,227,888	32,777,723
Environmental expenses	2,283,816	2,148,353	8,887,470	8,360,316
Maintenance and repairs	9,437,103	8,767,634	36,724,486	34,119,248
Other expenses	14,860,131	10,256,789	57,828,200	39,914,294
Costs before depreciation	**159,278,068**	**134,827,063**	**619,830,603**	**524,679,516**
Depreciation and amortization	31,605,401	28,848,694	122,992,418	112,264,693
Total	**190,883,469**	**163,675,757**	**742,823,021**	**636,944,209**

In "Professional and consulting fees" line are booked expenses for consultancy and management services from the specialized management companies of the group, namely KMG Rompetrol SRL (KMGR) and KMG International NV (KMGI). Variations of 2017 vs. 2016 are the result of adjustments to services rendered 2017 by KMGR and KMGI, borne by the company through the agreed contractual mechanism - increase in certain cost categories and wages and performance bonuses (due to improvement in activity).

20.OTHER OPERATING INCOME/ (EXPENSES), NET

	2017 USD	2016 USD	2017 RON	2016 RON
Net book value of non-current assets disposals	(74,421)	(65,610)	(289,609)	(255,321)
Proceeds on disposals of non-current assets	451,011	262,411	1,755,109	1,021,172
Reverse for impairment of tangible assets, net	(518,779)	(351,877)	(2,018,828)	(1,369,329)
Provision for receivables, net	94,838	701,652	369,062	2,730,479
Provision for inventories and write-off, net	(1,279,973)	2,789,003	(4,981,015)	10,853,405
Receivables write-off	(989,803)	-	(3,851,818)	-
Tangible and intangible assets write-off	(518,779)	(1,647,972)	(2,018,828)	(6,413,083)
Gain/(loss) from revaluation of non-current assets	(44,981,492)	-	(175,045,476)	-
Inventories write-off	(93,498)	(111,172)	(363,847)	(432,626)
Other provisions, net	(10,297,478)	-	(40,072,636)	-
Other, net	255,965	5,440,533	996,086	21,171,834
Total	**(57,952,409)**	**7,016,968**	**(225,521,800)**	**27,306,531**

The movement in provisions is presented in Notes 5, 8 and 9.

In 2017, “Other provisions” include an amount of USD 3.5 million that was booked in relation to fiscal controls for the period 2011 - 2015 in relation to Rompetrol Rafinare and USD 6.8 million in respect of environmental provision for Vega refinery.

Also in 2017, following the change in accounting policies for non - current assets (see notes Notes 2, and 5) a loss of USD 44.9 million resulted from buildings category revaluation.

21.FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	2017 USD	2016 USD	2017 RON	2016 RON
Finance cost				
Late payment interest	(99,212)	(6,753)	(386,083)	(26,279)
Interest expense	(23,136,264)	(20,394,342)	(90,034,770)	(79,364,582)
Interest expense shareholders	(8,988,097)	(9,359,179)	(34,977,179)	(36,421,245)
Unwinding of discount on hybrid	(1,756,732)	-	(6,836,323)	-
Commission and other bank charges	(19,247,232)	(14,835,757)	(74,900,603)	(57,733,348)
Collection discounts expenses	-	104	-	404
	(53,227,537)	**(44,595,927)**	**(207,134,958)**	**(173,545,050)**
Finance income				
Interest income	20,041,076	11,480,874	77,989,847	44,677,821
Other financial income	486,529	386,785	1,893,328	1,505,174
	20,527,605	**11,867,659**	**79,883,175**	**46,182,995**
Finance income/(cost) net	**(32,699,932)**	**(32,728,268)**	**(127,251,783)**	**(127,362,055)**
Unrealized net foreign exchange (losses)/gains	(903,766)	1,020,605	(3,517,004)	3,971,684
Realized net foreign exchange (losses)/gains	319,217	(6,166,624)	1,242,233	(23,997,417)
Foreign exchange gain/(loss), net	**(584,549)**	**(5,146,019)**	**(2,274,771)**	**(20,025,733)**
Total	**(33,284,481)**	**(37,874,287)**	**(129,526,554)**	**(147,387,788)**

22.INCOME TAX

a) The current income tax rate in 2017 was 16%, the same as in 2016.

	2017 USD	2016 USD	2017 RON	2016 RON
Tax expense comprises:				
Current tax expense	786,310	918,795	3,059,925	3,575,491
Deferred tax credit relating to the origination and reversal of temporary differences	2,764,446	(3,480,551)	10,757,842	(13,544,565)
Total tax expense/(income)	**3,550,756**	**(2,561,756)**	**13,817,767**	**(9,969,074)**

As of December 31, 2017, the Group had the following total unused fiscal losses:

Entity	Carried forward fiscal losses 2017 USD million	Recognised Deferred Tax Asset 2017	Carry forward fiscal losses 2016 USD million	Deferred Tax Asset 2016
Rompetrol Rafinare SA	494.31	471.5	573.91	432.5
Rompetrol Petrochemicals SRL	33.53	-	30.24	-
Rompetrol Downstream SRL	-	-	19.26	21.86
Rompetrol Logistics SRL	6.04	-	5.69	-
Rom Oil SA	3.32	-	5.38	-
As at December 31 2017	**537.20**	**471.50**	**634.48**	**454.4**

Deferred tax assets for losses carried forward were recognized because, following completion of its modernization program, the Group has started to be profitable and reasonable forecasts indicate profitability will continue in the following years. The deferred tax asset was computed based on the schedule of losses expiry (presented below) and the Group's forecasted taxable profits. The taxable profits were derived from the Company's forecast operating profits, which were also used for impairment testing of PPE (see note 6), and adjusted to reach taxable result (e.g. adjusting for fiscal depreciation vs. accounting depreciation and average level of non-deductible expenses).

As at 31 December 2017, deferred tax asset was recognized for USD 471 million (2016: USD 454 million) of the losses carried forward, based on the future fiscal profits estimated to be registered, in Rompetrol Rafinare. No deferred tax asset has been recognized for USD 66 million (2016: USD 180 million) in relation to the tax losses for the above entities, based on the assessment made.

In 2017, Rompetrol Rafinare recorded fiscal profit, which partially offset the fiscal loss from years 2010 and 2011. Also, in 2017 the cumulative fiscal loss was diminished by USD 144 million RON, after the fiscal control.

In 2017, Downstream fully utilized the cumulative fiscal loss.

22.INCOME TAX (continued)

A breakdown of tax losses by Group entity and by year of expiry are:

Entity	Taxable loss Amount USD million	Taxable loss Amount RON million	Tax loss Expires in
Rompetrol Rafinare SA			
2011	31.78	123.66	2018
2012	81.48	317.08	2019
2013	98.98	385.18	2020
2014	182.54	710.35	2021
2015	96.39	375.10	2022
2016	3.14	12.20	2023
	494.31	**1,923.59**	
Rompetrol Petrochemicals SRL			
2011	4.66	18.13	2018
2012	16.18	62.96	2019
2013	-	-	2020
2014	11.81	45.96	2021
2015	0.47	1.83	2022
2016	0.32	1.25	2023
2017	0.09	0.35	2024
	33.53	**130.48**	
Rom Oil SA			
2011	0.54	2.10	2018
2012	1.07	4.16	2019
2013	0.95	3.70	2020
2014	0.76	2.96	2021
	3.32	**12.92**	
Rompetrol Logistics SRL			
2011	1.54	5.99	2018
2012	2.26	8.79	2019
2013	0.66	2.57	2020
2014	0.61	2.37	2021
2015	0.30	1.17	2022
2016	0.32	1.25	2023
2017	0.34	1.32	2024
	6.04	**23.46**	
	537.20	**2,090.5**	

The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements.

b) The deferred tax assets and liabilities details are disclosed in Note 13.

22.INCOME TAX (continued)

c) The prima facie tax charge to the statements of income calculated based on regulatory accounts is reconciled to the profit tax expense calculated based on tax rules as follows, taking into account temporary differences and non-deductible items:

	2017 USD	2016 USD	2017 RON	2016 RON
Profit before tax	24,256,213	54,583,611	94,393,054	212,412,121
of which				
Companies which recorded profit	*46,350,320*	*58,927,179*	*180,372,270*	*229,315,117*
Companies which recorded loss	*(22,094,107)*	*(4,343,568)*	*(85,979,217)*	*(16,902,995)*
Tax at prevailing tax rate (16%)	7,416,052	9,428,348	28,859,566	36,690,416
Effect of losses carried forward	(15,295,584)	(8,038,216)	(59,522,765)	(31,280,718)
Effect of statutory items non deductible / (not taxable) for tax purposes	8,665,842	(471,337)	3,3723,124	(1,834,207)
Non-deductible expenses	9,749,166	1,673,211	37,938,879	6,511,302
Not - taxable income	(1,083,324)	(2,144,548)	(4,215,755)	(8,345,509)
Income tax expense recognised in profit or loss	**786,310**	**918,795**	**3,059,925**	**3,575,491**

23.OPERATING SEGMENT INFORMATION

a) Business Segments

For management purposes the Group is currently organized in 3 segments – refining, petrochemicals and marketing. Refining comprises Petromidia and Vega refineries, Petrochemicals comprises petrochemical division of Rompetrol Rafinare SA and Rompetrol Petrochemicals operations and Marketing comprises the operations of Rompetrol Downstream, Rom Oil, Rompetrol Logistics, and Rompetrol Gas.

For the income statement, management analysis is made separately for the 3 segments: Refining, Petrochemicals and Marketing. The balance sheet is analyzed by management at cumulated level for Refining and Petrochemicals segments. As a result, the balance sheet information for segments Refining and Petrochemicals are presented together.

23. OPERATING SEGMENT INFORMATION (continued)

2017 Income Statement information

USD	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	1,511,573,524	191,326,498	-	1,390,107,306	-	3,093,007,328
Net revenues "Inter segment"	1,076,569,662	-	-	6,688,543	(1,083,258,205)	-
Cost of sales	(2,429,677,743)	(203,615,366)	-	(1,257,077,649)	1,103,740,002	(2,786,630,756)
Gross margin	**158,465,443**	**(12,288,868)**	**-**	**139,718,200**	**20,481,797**	**306,376,572**
Selling, general and administrative expenses	(58,077,836)	(8,020,852)	-	(104,121,069)	(20,663,712)	(190,883,469)
Other operating income/(expenses), net	(41,638,083)	(55,520)	-	(14,503,171)	(1,755,635)	(57,952,409)
Operating margin (EBIT)	**58,749,524**	**(20,365,240)**	**-**	**21,093,960**	**(1,937,550)**	**57,540,694**
Financial expenses, net	-	-	(28,975,491)	(3,076,932)	(647,509)	(32,699,932)
Net foreign exchange result	-	-	(13,611,952)	13,027,403	-	(584,549)
Profit/(loss) before income tax	**58,749,524**	**(20,365,240)**	**(42,587,443)**	**31,044,431**	**(2,585,059)**	**24,256,213**
Income tax	-	-	-	(3,550,756)	-	(3,550,756)
Net Profit/(Loss)	**58,749,524**	**(20,365,240)**	**(42,587,443)**	**27,493,675**	**(2,585,059)**	**20,705,457**
Depreciation and amortisation	63,828,747	15,060,788	-	18,291,923	(1,119,464)	96,061,994

RON	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	5,882,288,369	744,547,067	-	5,409,602,581	-	12,036,438,017
Net revenues "Inter segment"	4,189,470,840	-	-	26,028,465	(4,215,499,305)	-
Cost of sales	(9,455,090,937)	(792,369,197)	-	(4,891,917,671)	4,295,204,217	(10,844,173,588)
Gross margin	**616,668,272**	**(47,822,130)**	**-**	**543,713,375**	**79,704,912**	**1,192,264,429**
Selling, general and administrative expenses	(226,009,899)	(31,213,146)	-	(405,187,140)	(80,412,836)	(742,823,021)
Other operating income/(expenses), net	(162,034,600)	(216,056)	-	(56,439,090)	(6,832,054)	(225,521,800)
Operating margin (EBIT)	**228,623,773**	**(79,251,332)**	**-**	**82,087,145**	**(7,539,978)**	**223,919,608**
Financial expenses, net	-	-	(112,758,123)	(11,973,881)	(2,519,779)	(127,251,783)
Net foreign exchange result	-	-	(52,970,912)	50,696,141	-	(2,274,771)
Profit/(loss) before income tax	**228,623,773**	**(79,251,332)**	**(165,729,035)**	**120,809,405**	**(10,059,757)**	**94,393,054**
Income tax	-	-	-	(13,817,767)	-	(13,817,767)
Net Profit/(Loss)	**228,623,773**	**(79,251,332)**	**(165,729,035)**	**106,991,638**	**(10,059,757)**	**80,575,287**
Depreciation and amortisation	248,389,569	58,609,057	-	71,183,018	(4,356,393)	373,825,251

23. OPERATING SEGMENT INFORMATION (continued)

2017 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	1,735,908,313	243,523,281	(595,909,002)	1,383,522,592
Total current assets	580,591,020	382,853,632	(172,019,127)	791,425,525
TOTAL ASSETS	**2,316,499,333**	**626,376,913**	**(767,928,129)**	**2,174,948,117**
Total equity	1,075,739,796	232,002,408	(603,396,232)	704,345,972
Total non-current liabilities	92,454,909	4,864,478	6,292,395	103,611,782
Total current liabilities	1,148,304,628	389,510,027	(170,824,292)	1,366,990,363
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,316,499,333**	**626,376,913**	**(767,928,129)**	**2,174,948,117**
Capital expenditure	60,156,694	25,293,794	(90,275)	85,360,213

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	6,755,287,202	947,670,849	(2,318,979,883)	5,383,978,168
Total current assets	2,259,369,953	1,489,874,909	(669,412,432)	3,079,832,430
TOTAL ASSETS	**9,014,657,155**	**2,437,545,758**	**(2,988,392,315)**	**8,463,810,598**
Total equity	4,186,241,417	902,837,371	(2,348,116,434)	2,740,962,354
Total non-current liabilities	359,788,279	18,930,116	24,486,850	403,205,245
Total current liabilities	4,468,627,459	1,515,778,271	(664,762,731)	5,319,642,999
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**9,014,657,155**	**2,437,545,758**	**(2,988,392,315)**	**8,463,810,598**
Capital expenditure	234,099,775	98,430,799	(351,305)	332,179,269

23. OPERATING SEGMENT INFORMATION (continued)

2016 Income Statement information

USD	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	1,195,516,963	180,271,804	-	1,064,721,261	-	2,440,510,028
Net revenues "Inter segment"	780,712,745	-	-	6,847,010	(787,559,755)	-
Cost of sales	(1,876,288,435)	(181,447,513)	-	(939,802,041)	806,144,648	(2,191,393,341)
Gross margin	**99,941,273**	**(1,175,709)**	**-**	**131,766,230**	**18,584,893**	**249,116,687**
Selling, general and administrative expenses	(45,304,794)	(7,698,183)	-	(93,735,984)	(16,936,796)	(163,675,757)
Other operating income/(expenses), net	10,476,092	8,087	-	(1,391,693)	(2,075,518)	7,016,968
Operating margin (EBIT)	**65,112,571**	**(8,865,805)**	**-**	**36,638,553**	**(427,421)**	**92,457,898**
Financial expenses, net	-	-	(27,224,409)	(4,678,648)	(825,211)	(32,728,268)
Net foreign exchange result	-	-	1,025,166	(6,171,185)	-	(5,146,019)
Profit/(loss) before income tax	**65,112,571**	**(8,865,805)**	**(26,199,243)**	**25,788,720**	**(1,252,632)**	**54,583,611**
Income tax	-	-	4,231,193	(1,669,437)	-	2,561,756
Net Profit/(Loss)	**65,112,571**	**(8,865,805)**	**(21,968,050)**	**24,119,283**	**(1,252,632)**	**57,145,367**
Depreciation and amortisation	64,636,241	15,197,899	-	17,410,254	(1,466,370)	95,778,024

RON	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	4,652,354,263	701,527,725	-	4,143,362,787	-	9,497,244,775
Net revenues "Inter segment"	3,038,143,647	-	-	26,645,139	(3,064,788,787)	
Cost of sales	(7,301,576,445)	(706,102,997)	-	(3,657,239,643)	3,137,111,897	(8,527,807,188)
Gross margin	**388,921,466**	**(4,575,272)**	**-**	**512,768,283**	**72,323,110**	**969,437,587**
Selling, general and administrative expenses	(176,303,606)	(29,957,479)	-	(364,773,582)	(65,909,542)	(636,944,209)
Other operating income/(expenses), net	40,767,712	31,471	-	(5,415,773)	(8,076,879)	27,306,531
Operating margin (EBIT)	**253,385,572**	**(34,501,280)**	**-**	**142,578,928**	**(1,663,311)**	**359,799,909**
Financial expenses, net	-	-	(105,943,787)	(18,206,959)	(3,211,309)	(127,362,055)
Net foreign exchange result	-	-	3,989,433	(24,015,166)	-	(20,025,733)
Profit/(loss) before income tax	**253,385,572**	**(34,501,280)**	**(101,954,354)**	**100,356,803**	**(4,874,620)**	**212,412,121**
Income tax	-	-	16,465,688	(6,496,614)	-	9,969,074
Net Profit/(Loss)	**253,385,572**	**(34,501,280)**	**(85,488,666)**	**93,860,189**	**(4,874,620)**	**222,381,195**
Depreciation and amortisation	251,531,932	59,142,624	-	67,752,003	(5,706,378)	372,720,181

23. OPERATING SEGMENT INFORMATION (continued)

In total net revenues are included customers that own more than 10% of total sales, their value amounting USD 894 million in 2017 and USD 748 million in 2016.

2016 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	1,657,832,014	232,348,038	(596,927,621)	1,293,252,431
Total current assets	306,514,311	250,542,299	(23,571,919)	533,484,691
TOTAL ASSETS	**1,964,346,325**	**482,890,337**	**(620,499,540)**	**1,826,737,122**
Total equity	892,127,164	186,779,797	(600,282,699)	478,624,262
Total non-current liabilities	132,946,441	132,115,687	5,013,700	270,075,828
Total current liabilities	939,272,720	163,994,853	(25,230,541)	1,078,037,032
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,964,346,325**	**482,890,337**	**(620,499,540)**	**1,826,737,122**
Capital expenditure	37,037,111	24,560,668	(155,105)	61,442,674

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	6,451,453,281	904,182,390	(2,322,943,832)	5,032,691,839
Total current assets	1,192,800,441	974,985,356	(91,730,121)	2,076,055,676
TOTAL ASSETS	**7,644,253,722**	**1,879,167,746**	**(2,414,673,953)**	**7,108,747,515**
Total equity	3,471,712,859	726,853,580	(2,336,000,122)	1,862,566,317
Total non-current liabilities	517,361,075	514,128,196	19,510,814	1,051,000,085
Total current liabilities	3,655,179,788	638,185,970	(98,184,645)	4,195,181,113
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**7,644,253,722**	**1,879,167,746**	**(2,414,673,953)**	**7,108,747,515**
Capital expenditure	144,129,920	95,577,836	(603,589)	239,104,167

- Inter - segment revenues are eliminated on consolidation.
- Transfer pricing between operating segments is determined based on market rules agreed between the segments. These transfer prices take into account the latest Crude/Refined products prices on markets adjusted by various margins / discounts taking into account quantity, quality, payment terms, transportation costs etc.

23.OPERATING SEGMENT INFORMATION (continued)

b) Geographical segments

All the Group's production facilities are located in Romania. The following table provides an analysis of the Group's net revenues by geographical market:

	2017 USD	2016 USD	2017 RON	2016 RON
Romania	**1,860,214,911**	**1,423,888,059**	**7,239,026,326**	**5,541,060,382**
Export	**1,232,792,417**	**1,016,621,969**	**4,797,411,691**	**3,956,184,393**
out of which				
Petroleum products	1,132,266,129	909,694,651	4,406,213,641	3,540,076,735
Petrochemical products	100,526,288	106,927,318	391,198,050	416,107,658
Total	**3,093,007,328**	**2,440,510,028**	**12,036,438,017**	**9,497,244,775**

24. RELATED PARTIES

The ultimate parent of the Group is the "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan, fully owned by State of Kazakhstan. The related parties and the nature of relationship is presented below:

Name of related party	Nature of relationship
KMG International N.V.	Majority Shareholder
Byron Shipping Ltd.	Company owned by KMG International Group
Byron Shipping SRL	Company owned by KMG International Group
Global Security Systems S.A.	Company owned by KMG International Group
KazMunayGas Engineering B.V.	Company owned by KMG International Group
KazMunayGas Trading AG	Company owned by KMG International Group
KMG Rompetrol S.R.L	Company owned by KMG International Group
KMG Rompetrol Services Center (former Rompetrol Exploration and Production S.R.L)	Company owned by KMG International Group
Midia Marine Terminal S.R.L.	Company owned by KMG International Group
Palplast S.A.	Company owned by KMG International Group
KazMunayGas –Engineering LLP (former Rominserv Kazahstan LTD)	Company owned by KMG International Group
Rominserv S.A.	Company owned by KMG International Group
Rominserv Valves Iaifo SRL	Company owned by KMG International Group
Rompetrol Albania Wholesale Sh.A.	Company owned by KMG International Group
Rompetrol Bulgaria JSC	Company owned by KMG International Group
Rompetrol Energy S.A.	Company owned by KMG International Group
Rompetrol Financial Group S.R.L.	Company owned by KMG International Group
Rompetrol Georgia LLC	Company owned by KMG International Group
Rompetrol Moldova SA	Company owned by KMG International Group
Oilfield Exploration Business Solutions S.A. (former Rompetrol S.A.)	Company owned by KMG International Group
Rompetrol Ukraine LLC	Joint Venture owned by KMG International Group
Rompetrol Well Services S.A.	Company owned by KMG International Group
TRG Petrol Ticaret Anonim Sirketi	Company owned by KMG International Group
Dyneff SA	Associate of KMG International Group
Uzina Termoelectrica Midia S.A.	Associate of KMG International Group
Kazmotransflot	Company affiliated to KMG International Group
Tengizchevroil LLP	Company affiliated to KMG International Group

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. For the year ended December 31, 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

24.RELATED PARTIES (continued)

Name of related party	Receivables and other assets			
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
	USD	USD	RON	RON
KazMunayGas Trading AG	4,711,700	4,628,871	18,335,581	18,013,251
Rominserv S.A.	1,151,215	4,935,299	4,479,953	19,205,716
KMG International N.V.	861,858	619,260	3,353,920	2,409,850
KMG Rompetrol S.R.L	2,479,955	33,067,219	9,650,745	128,681,083
KMG Rompetrol SRL - cash pooling	112,797,295	1,058,954	438,950,673	4,120,919
Oilfield Exploration Business Solutions S.A.	5,089,414	5,551,511	19,805,455	21,603,705
Rompetrol Well Services S.A.	285,401	464,799	1,110,638	1,808,765
KMG Rompetrol Services Center	18,150	78,554	70,631	305,693
Palplast S.A.	1,373,225	1,241,923	5,343,905	4,832,943
Rompetrol Bulgaria JSC	3,167,265	2,222,376	12,325,412	8,648,376
Rompetrol Moldova SA	6,303	11,175	24,528	43,488
KazMunayGas Engineering B.V.	3,573	3,573	13,904	13,904
Rompetrol Energy S.A.	617	558	2,401	2,171
Byron Shipping SRL	2,458	1,582	9,565	6,156
Rompetrol Albania Wholesale Sh.A.	13,069	11,532	50,858	44,877
Midia Marine Terminal S.R.L.	279,060	327,356	1,085,962	1,273,906
Rominserv Valves Iaifo SRL	22,555	6,600	87,773	25,684
Rominserv Kazakhstan LTD	168,167	168,167	654,422	654,422
Rompetrol Ukraine LLC	8,254	7,802	32,120	30,361
Uzina Termoelectrica Midia S.A.	2,175,925	1,933,289	8,467,612	7,523,394
Global Security Systems S.A.	182,644	153,990	710,759	599,252
Tengizchevroil LLP	562,412	13,347	2,188,626	51,940
TRG Petrol Ticaret Anonim Sirketi	2,703,679	-	10,521,367	-
Total	**138,064,194**	**56,507,737**	**526,755,443**	**219,899,856**

Name of related party	Payables, loans and other liabilities			
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
	USD	USD	RON	RON
KazMunayGas Trading AG	550,694,435	440,019,411	2,143,027,394	1,712,335,538
Rominserv S.A.	38,048,899	28,249,425	148,067,290	109,932,637
KMG International N.V.	19,814,422	2,068,929	77,107,823	8,051,237
KMG International N.V.- Short term debt - principal	127,660,155	213,328,160	496,789,493	830,166,535
KMG International N.V.- Short term debt - interest	574,327	10,381,033	2,234,994	40,397,790
KMG Rompetrol S.R.L	17,646,134	5,174,924	68,669,930	20,138,217
KMG Rompetrol SRL - cash pooling	115,317,058	88,369,934	448,756,331	343,891,598
Oilfield Exploration Business Solutions S.A.	238,318	193,694	927,414	753,760
Rompetrol Well Services S.A.	118,864	27,816	462,559	108,246
Rompetrol Well Services S.A. - Short term debt - principal	8,814,072	7,970,635	34,299,961	31,017,726
Rompetrol Well Services S.A. - Short term debt - interest	-	22,581	-	87,874
KMG Rompetrol Services Center	1,075,850	1,080,058	4,186,670	4,203,046
Rompetrol Bulgaria JSC	108,992	603	424,142	2,347
Rompetrol Moldova SA	3,656,976	818,638	14,231,122	3,185,730
Rompetrol Financial Group SRL - Short term debt - principal	29,551,550	26,723,700	114,999,857	103,995,279
Rompetrol Financial Group SRL - Short term debt - interest	1,346,494	1,884,025	5,239,881	7,331,683
Byron Shipping Ltd.	2,321	2,045	9,032	7,958
Rompetrol Energy S.A.	-	15	-	58
Byron Shipping SRL	-	1,108	-	4,312
Midia Marine Terminal S.R.L.	36,568,596	27,513,487	142,306,691	107,068,735
Midia Marine Terminal S.R.L.- Short term debt - principal	6,992,436	7,000,000	27,211,065	27,240,500
Midia Marine Terminal S.R.L. - Short term debt - interest	1,258,156	929,338	4,896,114	3,616,519
Rominserv Valves Iaifo SRL	16,379	27,443	63,739	106,794
Uzina Termoelectrica Midia S.A.	2,896,375	2,896,375	11,271,243	11,271,243
Rompetrol Georgia LLC	17	-	66	-
Global Security Systems S.A.	790,637	514,462	3,076,764	2,002,029
TRG Petrol Ticaret Anonim Sirketi	145	-	564	-
Total	**963,191,608**	**865,197,839**	**3,748,260,139**	**3,366,917,391**

24.RELATED PARTIES (continued)

During 2017 and 2016, Rompetrol Rafinare Group entered into the following transactions with related parties:

	Sales and other revenues			
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Name of related party	**USD**	**USD**	**RON**	**RON**
KazMunayGas Trading AG	893,975,771	748,970,396	3,478,906,713	2,914,618,296
Rominserv S.A.	823,328	824,979	3,203,981	3,210,406
KMG Rompetrol S.R.L	149,019	139,944	579,907	544,592
Rompetrol S.A.	4,659	4,800	18,130	18,679
Rompetrol Well Services S.A.	762,747	639,390	2,968,230	2,488,186
Palplast S.A.	13,302	17,570	51,765	68,374
Rompetrol Bulgaria JSC	37,754,492	31,115,170	146,921,606	121,084,684
Rompetrol Moldova SA	183,851,238	120,124,270	715,457,093	467,463,597
KMG Rompetrol Services Center	133,623	89,656	519,994	348,896
Midia Marine Terminal S.R.L.	442,354	377,741	1,721,421	1,469,979
Byron Navodari	22,084	22,211	85,940	86,434
Rominserv Valves Iaifo SRL	9,895	10,207	38,506	39,721
Uzina Termoelectrica Midia S.A.	15,768,979	14,113,103	61,364,982	54,921,140
Global Security Systems S.A.	99,992	182,399	389,119	709,806
TRG Petrol Ticaret Anonim Sirketi	25,681,554	-	99,939,767	-
	1,159,493,037	**916,631,836**	**4,412,227,387**	**3,567,072,790**

		Purchases and other costs			
		31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Name of related party	**Nature of transaction**	**USD**	**USD**	**RON**	**RON**
KazMunayGas Trading AG	Purchase of crude oil and other raw materials	2,260,170,506	1,753,804,923	8,795,453,524	6,824,931,858
Rominserv S.A.	Acquisition and maintenance of fixed assets	89,982,478	57,989,331	350,166,813	225,665,482
KMG International N.V.	Management services	13,535,368	9,473,808	52,672,885	36,867,324
KMG Rompetrol S.R.L	Management services	34,959,120	24,107,553	136,043,415	93,814,542
Rompetrol S.A.	Management services	26,294	41,233	102,323	160,458
Rompetrol Financial Group S.R.L.	Environmental services	1,194,463	1,063,727	4,648,253	4,139,494
Rompetrol Well Services S.A.	Interest on loan	356,125	29,676	1,385,860	115,484
KMG Rompetrol Services Center	Shared services	6,063,242	2,676,234	23,595,106	10,414,565
Midia Marine Terminal S.R.L.	Handling services/Transit	19,148,253	19,041,442	74,515,427	74,099,772
Byron Shipping SRL	Shipping services	-	418	-	1,627
Rominserv Valves Iaifo SRL	Valves	95,006	94,818	369,716	368,984
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	27,956,761	21,818,636	108,793,735	84,907,222
Global Security Systems S.A.	Security and protection services	3,574,568	3,142,226	13,910,431	12,227,972
Tengizchevroil LLP	Liquefied Petroleum Gas	5,015,983	5,714,889	19,519,698	22,239,491
		2,462,078,167	**1,898,998,914**	**9,581,177,186**	**7,389,954,275**

The nature of sale transactions consists in sale of petroleum products. Sales to related parties include sales taxes.

The Ministry of Public Finance of Romania (“MFPR”) held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, through a Government Ordinance, the shareholder became Ministry of Economy Trade and Business Environment (“MECMA”) until May 2013, when following MECMA reorganization the new holder became Ministry of Economy (“ME”). Later it was renamed the Ministry of Energy, Small and Medium Enterprises and Business Environment. At the moment it is named the Ministry of Energy.

As a result MFPR, MECMA, ME and Other Authorities are considered to be a related party of the Group. No entities in the Group have had any transactions during the period since MPFR, MECMA and ME became a related party or had balances as of period end, other than those arising from Romanian fiscal and legislative requirements, with MFPR, MECMA, ME and Other Authorities in Romania.

The amount of remuneration for key management personnel for 2017 was of USD 0.75 million (2016: USD 0.69 million), representing short term benefits and bonuses.

25.EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2017	2016	2017	2016
	USD	USD	RON	RON
Earnings				
Profit for the year attributable to ordinary equity holders of the parent entity	19,552,126	56,070,210	76,087,098	218,197,223
Number of shares				
Weighted average number of shares for the purpose of basic earnings per share (see Note 11)	44,109,205,726	44,109,205,726	44,109,205,726	44,109,205,726
Earnings per share *(US cents/share)*				
Basis	**0.044**	**0.127**	**0.171**	**0.494**

26.CONTINGENCIES

a) Related to the Parent's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Parent based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 27). The management is confident that the Parent is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Parent processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Parent were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Parent cancelled such invoices. The Parent is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Parent liable for paying such excises; the Parent appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.2 million). The management is confident that the likelihood of reversal of the earlier court decision is very low. No changes were incurred in 2017.

c) In December 2017, the National Agency for Tax Administration finalized the tax inspection in Rompetrol Rafinare (covering the period 2011-2015) for: VAT fiscal group (all entities from fiscal group were under fiscal control), income tax, withholding tax and excise.

Thorough the Assessment Decision (received in January 2018), there were imposed the following additional taxes: RON 26.1 million representing VAT (of which RON 13.1 million related to VAT of Rompetrol Rafinare SA the rest belonging to the VAT group companies), RON 6.5 million representing Rompetrol Rafinare SA withholding tax and decrease of Rafinare's fiscal loss with RON 144.4 million. The related penalties assessed are in amount of RON 16.3 million for all VAT group companies. The principal additional taxes and related penalties were partially paid and partially compensated with receivable taxes.

The tax assessment on VAT group and RRC was challenged on February 26, 2018. According to the Romanian Fiscal Procedure Code, the appeal shall be resolved within 45 days of the filing date. If the contestation is not solved within 6 months from the filing date, the contestant may address the competent administrative court for the annulment of the act.

In 2017, in respect of the above-mentioned tax inspection, a provision in amount of USD 3.5 million was booked in relation to Rompetrol Rafinare (see notes 16 and 20).

27.LEGAL MATTERS

Litigation with the State involving criminal charges

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain former shareholders directors, managers and external censors of Rompetrol Rafinare S.A. (”RRC”) and other individuals; these investigations were carried out at a formal level and materialized into different criminal proceeding activities (including specialized judicial expertise), currently undergoing the criminal prosecution phase. At the present date, only one of the directors of the Company who is involved in the investigation, still works for KMG International Group).

The charges brought against the defendants upon the initiation of the criminal investigations were:

a) failure to fulfill the investment commitments undertaken under the privatization contract concerning the Parent;
b) unlawful statement of excises and other debts to the state budget;
c) incorrect keeping of accounting registries regarding the technological products operations undertaken at the oil terminal owned by Oil Terminal, charges which concern events that took place during April 2001 – October 2002;
d) adoption of GEO no. 118/2003.

Considering the above-mentioned charges, a freezing order were issued by DIICOT and received on 9-10 May 2016 (the “Orders”), whereby it was decided to impose a seizure (freezing of the assets) on the movable and immovable assets of KMG International N.V., Rompetrol Rafinare SA and Oilfield Exploration Business Solutions SA (former Rompetrol SA) as well as over the shares these companies held in their Romanian subsidiaries.

The freezing of the assets does not impact the inventories, receivables and the bank account of Rompetrol Rafinare and this allows to the company to continue normally the day by day operations.

Considering the nature of the allegations submitted by DIICOT, the companies KMG International NV, Rompetrol Rafinare SA si Oilfield Exploration Business Solutions SA filed more memories that responded to the accusations formulated by DIICOT. Up to date, no response from DIICOT regarding these memos has been received.

Since the KMG International companies mentioned above had no capacity in the file till 2016 and it seems the entire process (with minor exceptions) of gathering the evidences by DIICOT have been performed before May 2016, the Companies submitted on April 7, 2017 their own application for, on the one hand, evidences to be attached to the file in order to defend and one the other hand to be redone some evidences (such as expertise report) performed before 2016. No reply received yet from DIICOT on this topic.

On April 12, 2017, the companies submitted also their application by which they asked the dismissals of the allegations regarding the OUG 248/2000 (regarding the privatization of RRC) and OUG 118/2003 (the issuance of bonds) taking into consideration the recent Constitutional Court decision no. 68/2017 by which the Court settled that the legislative process, as well as the aspects regarding the opportunity and/or lawfulness of a deed issued either by the Parliament and Government cannot be subject of a criminal inquiry and the Constitution provides other leverages assigned to other public authorities to control such instances. No reply received yet from DIICOT on this topic.

Taking into account the DIICOT considerations regarding the alleged acts committed before 2007, when the National Company JSC KazMunayGas (KMG) acquired the majority of Rompetrol Group and are subject to File no. 225/2006, KMG and KMG International N.V. (KMGI) sent to the Romanian authorities on July 22, 2016 a Comprehensive Notice formulated on the basis of the treaties on the protection of investments - based on the agreement between the Romanian Government and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania the Energy Charter Treaty.

27.LEGAL MATTERS (continued)

On October 20, 2016, the Ministry of Public Finance responded briefly to the KMG and KMGI Notification mentioned above.

The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. Should a settlement between KMG and Romania fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank, headquartered in Washington, D.C or to the Arbitration Institute of the Stockholm Chamber of Commerce, in line with the provisions of the respective treaties.

On May 10,June 28, 2017 and July 21 the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivable, RRC privatisation and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), intra-companies transactions and budgetary taxes and duties.

On July 17, 2017 DIICOT issued an Ordinance which generally keeps the approach of the Orders issued in 2016 but let the civil parties namely, Ministry of Energy and Ministry of Finance, to provide the figures for the alleged damage they incurred as well as the evidences for supporting any alleged damage.

A statement of defence against the July 2017 Ordinance has been submitted on December 22, 2017 as well a challenge against it submitted in front of the higher prosecutor on September 29, 2017.

Litigation on Tax Assessments received by Rompetrol Rafinare S.A.in 2012

In March 2012, the National Agency for Tax Administration issued to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million (equivalent of USD 15 million at historical rate), out of which half represents additional principal tax liabilities and the other half represents late payment interest and penalties.

Both the Report and the Decision were challenged by Rompetrol Rafinare. The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27th of October 2014 by Constanta Court of Appeal which partially annulled both Decision and the Assessment Decision for payment of RON 48 million (equivalent of USD 15 million at historical rate).

Constanta Court of Appeal held liable the National Agency for Tax Administration for paying back Rompetrol Rafinare approximately RON 21 million (equivalent of USD 6.2 million at the historical rate) and to pursue to audit again for approximately RON 9.7 million (equivalent of USD 2.8 million).

This Decision was appealed by both Rompetrol Rafinare and National Agency for Tax Administration in front of the High Court of Cassation and Justice of Justice. On October 12, 2017, the High Court of Cassation and Justice has rejected both appeals, so the decision of the first instance remained unchanged.

The re-audit was initiated in February 2018 and it is in progress at the date of the Financial Statements.

Litigation regarding CO2 emission allowances.

On February 28, 2011 Rompetrol Rafinare S.A. won the court case against The Romanian Government and The Ministry of Environment which required the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2.577.938 CO2 emission certificates for the entire period 2008-2012 (Decision 69/CA/2011). This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian Government, but the appeals were rejected by the High Court of Cassation and Justice of Justice on October 30, 2012 and the first court decision became final.

27.LEGAL MATTERS (continued)

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020.

Considering that the Ministry of Environment and the Romanian Government did not fulfill the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of Euro 36 million. – File no. 917/36/2013.

On October 11th, 2017, the court joined this file with File no. 712/36/2015, which had the same object (damages) but amounted to Euro 40 million (in accordance with a valuation of the Ministry of Environment itself) and was based on some new entered into force legal provisions.

On July 28th 2015, the Government issued its Decision no. 611/2015, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 in accordance with the final court decision of October 30 2012 and increasing the allocation of the Company with the amount of 2.577.940 CO2 emission certificates; this decision should have been fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The EC approval was not delivered yet and the Government Decision has still not been effectively implemented up to this date.

The next hearing in the reunited Files 917/36/2013 and 712/36/2015 is on April 16, 2018. An expertise report was provided to the court in respect of the counter value of the certificates and following these proceedings a court decision will have to be issued accordingly. The counter value held by this recent expertise report is EUR 38.51 million.

Litigation between Rompetrol Downstream SRL and RATB (Bucharest public transport company)

In 2011, following a public tender organized by RATB, the biggest public transport company in Romania serving Bucharest metropolitan area, Rompetrol Downstream was awarded with a 4 year frame Agreement (divided in 4 yearly contracts 2011-2015) for delivery of fuel for RATB fleet through an integrated system.

Even if Rompetrol Downstream to timely and fully observed its obligation to supply RATB with needed quantities of fuel during those 4 years, the related IT system was delivered gradually until September 16th, 2015, which lead to 4 court case (one per each agreement) initiated by RATB. The amounts requested by RATB concerns the enforcement of penalty clause in amount of 15% of frame contract turnover for not observing the contractual obligations relating to the implementation of the IT system;

a) Case 1 - On October 16th,2015 RATB submitted to Court the claim for damages in amount of RON 62.4 million (about USD 15 million) (based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2617/25.10.2011). On October 27th,2015, based on the tender book terms and conditions, RATB executed the bank letter guarantee provided by DWS for the amount of RON 5.7 million. Initially, Downstream managed to win the case at the first court, based on a legal procedural exception. However, both parties challenged afterwards the first court rule by way of a second appeal. The appeal was admitted by the higher court (Bucharest Court of Appeal) and the file was re-sent in 2017 for a proper judgment on the merits of the case. On January 25, 2018, the court has rejected the RATB's claim and admitted partially Downstream claim for reimbursement for the illegally enforcement by RATB of the LBG in amount of RON 5.7 million as well as the indemnity of RON 0.28 million as interests for delay payments by RATB of the fuel supplied.
b) Case 2 - RATB claimed for RON 65.5 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2907/17.10.2012). On 1 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision no. 321/30 January 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as unsubstantiated and the legal case was closed.

27.LEGAL MATTERS (continued)

c) Case 3 **-** RATB claimed for RON 65.1 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3126/18.10.2013). On 14 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision on 20 April 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as groundless and the legal case was closed.
d) Case 4 **-** RATB claimed for RON 5.7 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3241/17.10.2014). First hearing was scheduled for 25 October 2016. At that hearing term, the court suspended the case' judgement until Case 1 will be definitively settled. Case' judgment still suspended.

Litigation between Rompetrol Rafinare and Navodari City Hall

On November 19th, 2015, it was finalized the local taxes fiscal audit of the local taxes, performed by Navodari City Hall, for the period of 2012-2014. The only non-compliant finding refers to revaluation of buildings made by the company on December 31,2009 and December 31,2011, namely that not all fixed assets accounted for in the account 212 “Construction” were revalued, and therefore it was not in accordance with the accounting regulations stipulated by OMFP 3055/2009. As a result, the inspection team considered that for year 2012, certain buildings were not revalued within three years of the previous revaluation and applied a higher local tax rate of 10% for the buildings, and as a consequence assessed an additional tax on buildings and related penalties in total amount of 20.4 mil RON, out of which the principal is RON 11.2 million and the penalties and accessories are RON 9.2 million (calculated until the date of the report)

a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16th, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the High Court of Cassation and Justice shall be scheduled later.
b) Because the decision issued by Navodari City Hall of rejection the administrative complaint as being lack of object is based on Navodari Local Council Decision no.435/December 21, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties, Rompetrol Rafinare submitted a second action for partial annulment of Navodari Local Council Decision no. 435/December 21st, 2015. This action was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term was set on January 16th, 2017, when the appeal was rejected. The solution is final.
c) Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defense was submitted by Navodari City Hall and the first hearing term was established for February 22nd, 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19th, 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the High Court of Cassation and Justice. The first hearing term before the High Court of Cassation and Justice was scheduled on March 22, 2018.

27.LEGAL MATTERS (continued)

Litigations between Rompetrol Rafinare and National Company – Constanta Maritime Port Administration S.A.

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta *(National Company of Constanta Maritime Ports Administration)* of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the assurance of safe access and operation, the company initiated several legal remedies against it, as follows:

a) Complaint against National Company "Administratia Porturilor Maritime" SA for violating the provisions of art. 9 of the Law no 21/1996 which caused to Rompetrol Rafinare SA damages consisting of USD 1.8 mil USD - dredging expenditures and 3.3 mil USD - commercial loss. The complaint leads to an investigation launched in April 2016 by the Competition Council. Competition Council is entitled to acknowledge the violation by Administraţia Porturilor Maritime of the provisions of art. 9 of Law no. 21/1996, to sanction the said company in accordance with the law and to render it liable to perform, subject to legal terms and conditions, the obligations resting upon it as administrator of port areas and supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port.
b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (0.8 mil USD) and for restitution of dredging expenses (USD 1.7 million). On May 19th, 2017, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff:
   - The amount of EUR 1.57 million, representing dredging expenditures paid by Rompetrol Rafinare SA, during the period 30 April 2015 - 11 May 2015;
   - The amount of RON 0.079 million representing legal costs.

   Both parties filed for appeal against the solution pronounced by first court. On December 27, 2017, Constanta Court of Appeal admitted the appeal filed by Constanta Port Administration, reject the appeal filed by Rompetrol Rafinare SA and changed the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal.The decision is not communicated yet.

Procedure in which is involved Rompetrol Rafinare SA, Rominserv SRL, and employees of the two companies, following of a technical incident occurred in of Petromidia refinery on August 22, 2016

On August 22, 2016 a technical incident occurred within the DAV plant. Following the event, two employees of a Group' subsidiary Rominserv SRL suffered burns and two persons passed away.

The competent authorities have initiated investigations in order to establish the circumstances and the causes that generated the technical incident. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and being open file no. 586 /P/ 2016, within which have been questioned employees of the 2 companies and was administered technical expertise.

Following the completion of the criminal prosecution, Rompetrol Rafinare S.A., Rominserv SRL and four employees were put on trial for: the non-observance of the legal labour health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party.

By the final conclusion of Preliminary Chamber procedure, communicated to Rompetrol Rafinare and Rominserv on March 27, 2017 the court ordered, considering the fact that the prosecutor did not reply within procedural five days, to return the case to the Prosecutor's Office Court Appeal Constanta, finding relative nullity of the Ordinance no. 586 /P/2016, irregularity of the indictment, prosecutor failure to respond within procedural terms. The Prosecutor's Office Court Appeal Constanta made appeal.

27.LEGAL MATTERS (continued)

On June 21, 2017 the Constanta County Court admitted the prosecutor's appeal and ordered the retrial of the case by Constanta Court with the observance of the legal dispositions on the summoning of the parties, namely the aggrieved persons and prosecutor. According with court decision of September 29, 2017, the file shall be sent back to the prosecutor office whereas it has been ascertained that ordinance no. 586/P/2016 and the subsequent Act of Indictment of the Prosecutor's Office by Constanta Court of Appeal are subject to relative nullity and that the object and limits of judgment cannot be established. The solution has been challenged by Prosecutor's Office, the contestation was reject and the criminal file shall be sent back to the prosecutor's office of Constanta in order to resume the criminal prosecution activities within the limits of the legality provisions.

On the other hand, it was admitted the request filed by Rominserv for the plea of unconstitutionality of certain provisions to be settled further by the Constitutional Court. The respective provisions concern the possibility to rectify the document instituting court proceedings during the preliminary chamber procedure.

On January 17, 2018, the Constanta court dismissed the prosecutor appeal against the decision issued in preliminary chamber and therefore approached the companies defence reasoning. The ruling is final and the file shall be sent back to the Prosecutor's Office of Constanta to resume the criminal prosecution activities within the limits of the legality provisions.

Considering the allegations, each company is facing, a maximum exposure of approximately RON 3.6 million.

Also, on May 25, 2017 Rompetrol Rafinare and Rominserv received a reply to its challenge submitted against the Constanta Labour Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. On August 16th, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labour Inspectorate (in cumulated amount of RON 0.028 million). The minutes of the fine have been appealed by both parties involved. On December 14, 2017, the court has requested to Rompetrol Rafinare and to the Territorial Labour Inspectorate to send written specifications regarding optional suspension of the case, pending resolution of the criminal file. The court suspended the case until the criminal file will be solved.

Other litigations

Vega residual pools remediation project

On November 15, 2017, Environmental National Guard (ENG) performed an inspection at Vega Refinery in order to determine the status of implementation of the Remedial Project.
Following the inspection, the Assessment Note no. 299 was issued, specifying that:

- on the same day the Company had to provide written information on the status of implementation of the Project;
- ENG would inform Prahova Environment Protection Agency (PEPA) immediately of Company's failure to comply with its obligations specified in the Environmental Integrated Authorization;
- a fine of 100.000 RON would be applied for Company's failure to send a notice to PEPA with respect to the commencement of the remedial works and to the identity of the contractor appointed in the Project (by submitting a copy of the contract concluded therewith), including for the failure to perform the works described in the remedial project and to comply with the dead-lines specified in relation thereto.

On November 21, 2017, PEPA transmitted the Notice no. 149, informing that the Company must comply with the provisions of Integrated Environmental Authorization (EIA) until December 21, 2017 (related to the execution of residual pools remediation project), otherwise the EIA would be suspended until remedial of Company's failure, but, in any case, no longer than 6 (six) months, after which the EIA would be cancelled.

27.LEGAL MATTERS (continued)

Against the documents received from environmental authorities, the company has brought actions in court as follows:

a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14,2017. The ENG point of view was received on January 17th 2018;
b) preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017. The ENG point of view was received on January 17th 2018.;
c) suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; the first hearing was not set. On February 5th 2018 the Constanta court has accepted the request for suspension of the Prior Notice no. 149/21.11.2017; to be mentioned that in according with contentious law, the request for annulment of the Prior Notice will be formulated in 60 days.
d) complaint against the fine received from ENG, submitted to the Ploiesti court on November 29, 2017; the next hearing was set on March 19th 2018.

On December 20, 2017 the Company submitted to the PEPA notice for initiation of the project works (phase I- construction) and on December 21, 2017 a correspondence with details regarding the company which will execute the construction works. On January 17th 2018 a detail plan activities for first stage of the project (preparation activities) was sent to the PEPA.

Up to this date no written confirmation was received from the environmental authorities regarding compliance of the company with the obligations mentioned in the EIA, related the execution of the remediation project.

28.COMMITMENTS

Environmental commitments

The principal activity of Rompetrol Rafinare SA (including Vega Refinery) of refinery petroleum products and Rompetrol Petrochemicals has inherent effects on the environment in terms of effluents into land, water and air. The environmental effects of the Group's activities are monitored by specialized authorities and the management of the Group.

The Company has recognized a provision for restoration cost at its Vega location, see Note 16.

As of December 31, 2017, and December 31,2016 Rompetrol Rafinare S.A. has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega obligations, which have been provisioned.

At the end of March 2018 Rompetrol Rafinare SA will buy back a total of 430,000 CO2 certificates fromACT Financial Solutions BV (former ACT Commodities BV).

Other commitments

As of December 31,2017, Rompetrol Rafinare S.A. has contracted capital commitments for projects related to capital maintenance, authorizations and compliance with Euro standards at the Petromidia refinery of USD 28.89 million (2016: USD 55.03 million). As of December 31, 2017, Rompetrol Downstream S.R.L has contracted capital commitments of USD 3.9 million (2016: USD 4.27 million).

Rompetrol Downstream S.R.L. has certain concession and rental agreements with local authorities and other companies/individuals in Romania for plots of land. Usually the conditions for these agreements are the following: terms from 5 to 49 years, fixed or variable fees per year. According to these agreements, the approximate amount to be paid in 2018 is USD 5.47 million (USD 4.5 million in 2017).

28. COMMITMENTS (continued)

Sale and purchase commitments

As of December 31, 2017, the main Group's commitments relate to Rompetrol Rafinare S.A. which has non-group commitments for purchases of raw materials and utilities of USD 2,466.58 million (2016: USD 2,102.8 million) and for sales of petroleum, petrochemicals products and utilities sales of USD 1,967.94 million (2016: USD 1,724.08 million).

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29. 1. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of bank debt and shareholder loans (see Note 15), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the "Consolidated Statement of Changes in the Shareholders' Equity".

29.2. Gearing ratio

The gearing ratio at the year-end was as follows:

	December 31, 2017	December 31, 2016
Debt (excluding shareholder loans and related parties)	238,750,435	214,051,063
Cash and cash equivalents	(12,592,193)	(15,810,298)
Net debt	**226,158,242**	**198,240,765**
Equity (including shareholder loans and related parties)	880,557,756	746,878,231
Net debt to equity ratio	**0.26**	**0.27**

29.3. Categories of financial instruments and fair values

The estimated fair values of these instruments approximate their carrying amounts.

	December 31, 2017	December 31, 2016
Financial assets		
Trade and other receivables	410,686,063	263,774,358
Long-term receivables	1,599,013	1,480,888
Available for sale investments	18,583	18,583
Derivative financial instruments	-	5,340
Cash and cash equivalents	12,592,193	15,810,298
TOTAL FINANCIAL ASSETS	**424,895,852**	**281,089,467**
Financial liabilities		
Long-term borrowings	-	193,162,805
Derivative financial instruments	48,387	323,130
Short term borrowings from shareholders	176,211,784	268,253,969
Other non-current liabilities	207,676	177,110
Trade and other payables	888,094,595	725,513,525
Short-term borrowings banks	224,063,232	20,888,258
TOTAL FINANCIAL LIABILITIES	**1,288,625,674**	**1,208,318,797**

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Trade and other receivables are at net recoverable value the following are not considered as financial assets:

- Advances to suppliers
- VAT to be recovered
- Profit tax receivables
- Other taxes receivables

Similarly, for trade and other payables the following are not considered as financial liabilities:

- Advances from customers
- Excises taxes
- Special found tax for oil products
- VAT payable
- Profit tax payable
- Salary taxes payable
- Other taxes
- Deferred revenues;

The estimated fair values of these instruments approximate their carrying amounts.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Group enters into derivative financial instruments with various counterparties. As at 31 December 2017, the marked to market value of derivative position is for financial instruments recognized at fair value.

29.4. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	December 31, 2017	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	410,686,063	410,686,063	-	-
Long-term receivables	1,599,013	1,599,013	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	-	-	-	-
Cash and cash equivalents	12,592,193	12,592,193	-	-
TOTAL FINANCIAL ASSETS	**424,895,852**	**424,895,852**	**-**	**-**
Financial liabilities				
Long-term borrowings	-	-	-	-
Derivative financial instruments	48,387	-	48,387	-
Short term borrowings from shareholders	176,211,784	176,211,784	-	-
Other non-current liabilities	207,676	207,676	-	-
Trade and other payables	888,094,595	888,094,595	-	-
Short-term borrowings banks	224,063,232	224,063,232	-	-
TOTAL FINANCIAL LIABILITIES	**1,288,625,674**	**1,288,577,287**	**48,387**	**-**

	December 31, 2016	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	263,774,358	263,774,358	-	-
Long-term receivables	1,480,888	1,480,888	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	5,340	-	5,340	-
Cash and cash equivalents	15,810,298	15,810,298	-	-
TOTAL FINANCIAL ASSETS	**281,089,467**	**281,084,127**	**5,340**	**-**
Financial liabilities				
Long-term borrowings	193,162,805	193,162,805	-	-
Derivative financial instruments	323,130	-	323,130	-
Short term borrowings from shareholders	268,253,969	268,253,969	-	-
Other non-current liabilities	177,110	177,110	-	-
Trade and other payables	725,513,525	725,513,525	-	-
Short-term borrowings banks	20,888,258	20,888,258	-	-
TOTAL FINANCIAL LIABILITIES	**1,208,318,797**	**1,207,995,667**	**323,130**	**-**

During the reporting period ending 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

29.5 Derivative financial instruments

The Group uses different commodity derivatives as part of price risk management in trading of crude oil and products.

Balance Sheet:

	December 31, 2017	December 31, 2016
Derivative financial asset	-	5,340
Derivative financial liability	(48,387)	(323,130)
Net position - asset/(liability)	**(48,387)**	**(317,790)**

The derivative instruments liability balance in respect of fair value hedge against the inventories includes an adjustment of USD 48 thousands.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Income Statement:

	December 31, 2017	December 31, 2016
Unrealised (gains)	-	-
Net position - (gain)/loss - in Cost of sales	**-**	**-**
Realised gain /(losses) - net	11,545,320	(2,179,570)
Total position - loss/(gain) - in Cost of sales	**11,545,320**	**(2,179,570)**

	December 31, 2017	December 31, 2016
Derivative asset/(liability) 2016	**(317,790)**	**(626,926)**
Forex unrealized (hedging of forex)	-	-
Cash payments	(42,808)	1,426,383
Reserves	312,211	(1,117,247)
Derivative asset/(liability) 2017	**(48,387)**	**(317,790)**

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognized in profit or loss as they arise.

29.6 Market risk

The Group's activities expose it to a variety of risks including the effects of: changes in the international quotations for crude oil and petroleum products, foreign currency exchange rates and interest rates. The Group's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Group companies.

29.7. Foreign currency risk management

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products sales are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in other currencies, which are translated at the prevailing exchange rate at each balance sheet date. The unrealized differences are charged or credited to the income statement but do not affect cash flows. Group Treasury is responsible for handling the Group foreign currency transactions.

29.8. Foreign currency sensitivity analysis

The Group is mainly exposed to the RON and EUR currencies.

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity here the USD strengthens 5% against the relevant currency. For a 5% weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

		RON		EUR	
		2017	2016	2017	2016
USD	**USD**				
Profit or loss	**5%**	916,598	(1,969,718)	(58,561)	(826,698)
	-5%	(916,598)	1,969,718	58,561	826,698

29.9. Interest rate risk management

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Group to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Group's borrowings, are provided in Notes 12 and 15.

The sensitivity analyses below have been determined based on the financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's: profit for the year ended 31 December 2017 would decrease/increase by USD 1,672 thousand (2016: decrease/increase by USD 2,796 thousand).

29.10. Liquidity risk management

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments, including interest payable until the end of the contracts for finance leasing and loans.

Year ended December 31, 2017	Less than 1 month or on demand	<3 months	3-12 months	1-5 years	>5 years	Total
Long-term debt	-	-	-	-	-	-
Trade and other payables	811,717,601	73,164,721	3,212,273	-	-	888,094,595
Derivative financial instruments	-	48,387	-	-	-	48,387
Short-term borrowings from related parties	176,211,784	1,598,057	4,766,109	-	-	182,575,950
Short-term debt	-	1,812,154	224,752,807	-	-	226,564,961
Other non-current liabilities	-	-	-	207,676	-	207,676
	987,929,385	**76,623,319**	**232,731,189**	**207,676**	**-**	**1,297,491,569**

Year ended December 31, 2016	Less than 1 month or on demand	<3 months	3-12 months	1-5 years	>5 years	Total
Long-term debt	-	1,530,815	4,592,446	195,203,892	-	201,327,153
Trade and other payables	682,245,523	38,970,209	4,296,790	1,003	-	725,513,525
Derivative financial instruments	-	323,130	-	-	-	323,130
Short-term borrowings from related parties	268,253,969	7,374	-	-	-	268,261,343
Short-term debt	-	186,103	20,892,302	244,093	-	21,322,498
Other non-current liabilities	15,941	-	-	161,169	-	177,110
	950,515,433	**41,017,631**	**29,781,538**	**195,610,157**		**- 1,216,924,759**

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

29.11. Commodity price risk

The Group is affected by the volatility of prices of crude oil, oil products and by refinery margins. Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Group's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Group started on January 2011 to hedge commodities held by Rompetrol Rafinare and in 2014 it was implemented a hedging program in Rompetrol Downstream.

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, at the beginning of 2017, the hedge strategy for 2017 was split between futures and options.

Trading activities are separated into physical (purchase from third parties and KazmunayGas Group, and sales to third parties and Intercompany) and paper trades (for economic hedging purposes). Each physical transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Group sells or buys the equivalent number of future contracts. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. The company also had hedge operations for refinery margins. The European refinery margin had a good evolution during 2017 (in line with last year figures). In particular, in August, as a result of Harvey Hurricane in US, there was a temporary lack of supply in the region which pushed up European Margins to outstanding levels, being also a good moment for refiners to hedge upcoming period.

In terms of Refinery Margin Hedge, the company recorded positive result from both paper and physical sides. The net impact of the commodity hedges (physical result –gain- plus paper result –loss- for hedged stocks) was USD 8.5 million (2016: net gain of USD 10.4 million). In the same time, the company results were positively impacted by the inventory gains related to the base operating stock in refinery but considering such stock is constant in time, the gain is only on paper not on cash.

29.12 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

Trade receivables

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to KazMunayGas Trading AG, a related party represent 29% of the Group's revenues. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

Financial instruments and bank deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy.

30. SUBSEQUENT EVENTS

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until April 10, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until May 28, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2018.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2018.

At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates (in amount of EUR 2.6 million) from ACT Financial Solutions BV (former ACT Commodities BV).

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Building a better working world

RAPORTUL AUDITORULUI INDEPENDENT
INDEPENDENT AUDITOR'S REPORT

Catre actionarii Rompetrol Rafinare S.A.
To the Shareholders of Rompetrol Rafinare S.A

Raport asupra auditului situatiilor financiare
Report on the Audit of the Financial Statements

Opinia
Opinion

Am auditat situatiile financiare consolidate ale Rompetrol Rafinare S.A. cu sediul social in Bulevardul Navodari, nr. 215, Pavilion Administrativ, 907500 – Navodari, Romania, identificata prin codul unic de inregistrare fiscala RO1860712, si ale filialelor sale (impreuna „Grupul"), care cuprind situatia consolidata a pozitiei financiare la data de 31 decembrie 2017, contul de profit si pierdere consolidat, contul de profit si pierdere global consolidat, situatia consolidata a modificarilor capitalului propriu si situatia fluxurilor de trezorerie consolidata pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative (impreuna „situatiile financiare"), toate sumele fiind exprimate in dolari americani („USD"). De asemenea, am verificat conversia in RON a sumelor prezentate in aceste situatii pe baza descrisa in nota 2e.
We have audited the consolidated financial statements of Rompetrol Rafinare S.A. with official head office in 215, Navodari Boulevard, Administrative Pavilion, 907500 – Navodari, Romania, identified by sole fiscal registration number RO1860712, and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at December 31, 2017, 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 (together the "financial statements"), all expressed in United States Dollar ("USD"). We have also checked the translation into Romanian lei on the basis described in Note 2e.

In opinia noastra, situatiile financiare consolidate anexate ofera o imagine fidela si justa a pozitiei financiare a Grupului la data de 31 decembrie 2017, ca si a performantei financiare si a fluxurilor de trezorerie ale acestuia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Standardele Internationale de Raportare Financiara adoptate de Uniunea Europeana.
In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

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Bazele opiniei
Basis for opinion

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA), Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului din 16 aprilie 2014 („Regulamentul (UE) nr. 537/2014") si Legii nr.162 /2017 („Legea 162/2017"). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru.
Suntem independenti fata de Grup conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA), conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania, inclusiv Regulamentul (UE) nr. 537/2014 si Legea 162/2017, si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra.
We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Aspecte cheie de audit
Key audit matters

Aspectele cheie de audit sunt acele aspecte care, in baza rationamentului nostru profesional, au avut cea mai mare importanta pentru auditul situatiilor financiare consolidate din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare consolidate in ansamblu, si in formarea opiniei noastre asupra acestora, si nu emitem o opinie separata cu privire la aceste aspecte cheie.
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Pentru fiecare aspect de mai jos, am prezentat in acel context o descriere a modului in care auditul nostru a abordat respectivul aspect.
For each matter below, our description of how our audit addressed the matter is provided in that context.

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Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru, inclusiv in legatura cu aceste aspecte cheie. In consecinta, auditul nostru a inclus efectuarea procedurilor proiectate sa raspunda la evaluarea noastra cu privire la riscul de erori semnificative in cadrul situatiilor financiare consolidate. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastra de audit asupra situatiilor financiare consolidate anexate.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Aspecte cheie de audit	Modul in care auditul a abordat aspectul cheie de audit
Testarea pentru depreciere a fondului comercial si a imobilizarilor corporale Informatiile prezentate de grupul Rompetrol Rafinare cu privire la fondul comercial si imobilizarile corporale, inclusiv cu privire la deprecierea aferenta, sunt incluse in nota 4, nota 5 si respectiv nota 6.	
Grupul Rompetrol Rafinare trebuie sa testeze anual pentru depreciere valoarea fondului comercial. La 31 decembrie 2017, fondul comercial al Grupului are valoarea de 83 milioane USD si este semnificativ pentru auditul nostru. Testarea pentru depreciere a fondului comercial a fost efectuata la nivelul unei singure unitati generatoare de numerar – Downstream, careia i-a fost alocat acest fond comercial. Imobilizarile corporale sunt de asemenea semnificative pentru auditul nostru, avand in vedere importanta pozitiei bilantiere de 1.255 milioane USD la 31 decembrie 2017. De asemenea, evaluarea conducerii cu privire la indicatorii de depreciere a unitatilor generatoare de numerar si respectiv a activelor individuale implica analiza unor surse de informatii diverse, inclusiv a factorilor cu privire la mediul economic si a factorilor specifici industriei.	Procedurile noastre de audit au inclus, printre altele: · am analizat si evaluat judecata conducerii cu privire la existenta indicatorilor de depreciere pentru imobilizari corporale si respectiv fond comercial, luand in considerare de asemenea, daca testul de depreciere a acoperit toate unitatile generatoare de numerar/activele individuale semnificative pentru care au existat indicatori de depreciere la sfarsitul perioadei de raportare; · am comparat volumele de productie/vanzari si costurile actuale in 2017 ale fiecarei unitati generatoare de numerar cu volumele de productie/vanzari si costuri estimate in bugetul pregatit pentru 2017; · am comparat preturile viitoare pe termen scurt si lung pentru titei si gaze si marjele produselor folosite in bugetele Grupului cu previziunile analistilor si cele adoptate de alte societati internationale din domeniul petrolier;

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In plus, in 2017 Grupul si-a schimbat politica contabila pentru evaluarea cladirilor, de la modelul pe baza de cost la modelul bazat pe reevaluare, care a condus la o crestere neta in valoarea contabila a cladirilor de 129 milioane USD.

Industria de petrol si gaze a trecut prin schimbari semnificative ca urmare a declinului preturilor petrolului si gazelor incepand cu ultima parte a anului 2014, ceea ce a condus la inchiderea unor centre de productie si amanarea investitiilor de catre unii jucatori din industrie. La 31 decembrie 2017 conducerea a identificat indicatori de depreciere si a efectuat testari pentru depreciere separate cu privire la imobilizarile corporale ale celor trei unitati generatoare de numerar identificate: Downstream, cu o valoare neta contabila a imobilizarilor corporale de 207 milioane USD, Rafinare, cu o valoare contabila neta a imobilizarilor corporale de 919 milioane USD si Petrochimie cu o valoare contabila neta a imobilizarilor corporale de 55 milioane USD.

Testarea pentru depreciere a fondului comercial si a imobilizarilor corporale este importanta pentru auditul nostru deoarece procesul de evaluare este complex, implica rationamente semnificative ale conducerii si se bazeaza pe ipoteze care sunt afectate de conditiile de piata viitoare din sud-estul Europei.

- am evaluat acuratetea istorica a bugetelor si estimarilor conducerii prin compararea lor cu performanta efectiv realizata si cu cea a anului anterior;
- am implicat specialistii nostri evaluatori interni pentru a ne asista la evaluarea ipotezelor-cheie si a metodologiilor aplicate de Grupul Rompetrol Rafinare pentru testarea de depreciere a fondului comercial si a imobilizarilor corporale. Evaluarea noastra s-a axat pe estimarea ratei de actualizare folosite, pe analiza privind senzitivitatea valorilor recuperabile ale unitatilor generatoare de numerar la modificarile ipotezelor semnificative, precum si pe ipotezele-cheie aplicate la estimarea fluxurilor de numerar viitoare pentru unitatile generatoare de numerar respective (cum ar fi preturile de vanzare preconizate, volumele de productie / vanzare, marjele produselor, modificarile capitalului de lucru, etc.), analizand conformitatea acestora cu mediul economic general si cel specific industriei, cu informatiile de piata relevante disponibile si cu planurile de afaceri ale Grupului;
- am testat acuratetea matematica a modelului;

Ca parte a procedurilor noastre de audit specifice cu privire la reevaluarea cladirilor, am obtinut rapoartele de reevaluare emise de expertii evaluatori externi angajati de Grup si am efectuat urmatoarele proceduri:

- am evaluat independenta si competenta expertilor evaluatori externi;
- am implicat specialistii nostri evaluatori interni pentru a ne asista in aprecierea metodologiilor de evaluare folosite si in testarea principalelor ipoteze (incluzand factorii de indexare folositi in determinarea costului de inlocuire folosind metoda indirecta/de indexare, testand durata de viata ramasa si cea totala pentru activele evaluate pe clase, estimarea factorilor de

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	depreciere specifici pentru activele nefolosite sau uzate, testand informatia de piata acolo unde este relevant) prin comparatie cu trendurile istorice si informatii externe; · am testat, pe baza unui esantion acuratetea matematica a calculelor cheie observate in cadrul raportului de evaluare pregatit de evaluatorul independent. Am evaluat de asemenea caracterul adecvat al informatiilor prezentate de Grup cu privire la fondul comercial si imobilizarile corporale, incluzand deprecierea aferenta.
Recuperabilitatea creantei privind impozitul pe profit amanat Informatiile prezentate de Grupul Rompetrol Rafinare cu privire la creanta privind impozitul pe profitul amanat sunt incluse in Nota 13.	
Dupa cum este prezentat in nota 13 la situatiile financiare, la 31 decembrie 2017, Societatea a recunoscut o creanta de impozit pe profit amanat de 36 milioane USD, rezultand din pierderi fiscale reportate. Creanta privind impozitul pe profit amanat are o importanta semnificativa pentru auditul nostru avand in vedere importanta pozitiei bilantiere la 31 decembrie 2017 si faptul ca, pentru evaluarea recuperabilitatii soldului, procesul de estimare necesita rationamente ale conducerii, in special raportat la informatiile privind suficienta veniturilor impozabile previzionate pe baza carora pierderile fiscale pot fi folosite, preconizandu-se ca unele dintre acestea vor fi generate peste mai multi ani in viitor.	Procedurile noastre de audit s-au axat pe evaluarea ipotezelor-cheie ale conducerii cu privire la recuperabilitatea creantei privind impozitul pe profit amanat, cum ar fi previziuni care stau la baza recunoasterii activului, inclusiv sumarul datelor de expirare a pierderilor fiscale. Am evaluat conformitatea acestor previziuni cu planurile de afaceri pe termen lung aplicate de conducere pentru gestionarea si monitorizarea performantei activitatii. Specialistii nostri interni in aspecte fiscale au fost implicati, daca a fost cazul, in procedurile noastre de audit in domeniul impozitarii curente si efectul oricarei evaluari relevante a fost luat in considerare in cadrul evaluarii noastre cu privire la proiectiile privind profitul impozabil. De asemenea, am evaluat caracterul adecvat al informatiilor prezentate de grup cu privire la creanta privind impozitul pe profit amanat.
Completitudinea si caracterul adecvat al provizioanelor pentru litigii Informatiile prezentate de grupul Rompetrol Rafinare cu privire la litigii sunt incluse in Note 27.	

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Grupul este implicat in litigii diferite si semnificative, inclusiv in legatura cu proceduri de reglementare si/sau guvernamentale, precum si investigatii ale autoritatilor fiscale care sunt prezentate la nota 27 din situatiile financiare. Aceste aspecte sunt importante pentru auditul nostru datorita incertitudinilor inerente cu privire la rezultatul final al acestor litigii, complexitatea cazurilor si rationamentul semnificativ aplicat de conducere in estimarea rezultatului final al acestor evaluari si al expunerilor (ex.: daca o datorie ar trebui recunoscuta sau o datorie contingenta ar trebui prezentata si daca o potentiala iesire de numerar poate fi estimata in mod credibil). Datorita importantei si complexitatii acestor litigii, rezultate nefavorabile ar putea avea un potential impact asupra performantei financiare si pozitiei financiare a Grupului.	Procedurile noastre de audit au inclus, printre altele, obtinerea de confirmari de la avocatii externi ai Grupului care ofera asistenta cu privire la aceste cazuri precum si documentatie suport de la departamentul juridic intern al Grupului, cu privire la stadiul acestor litigii. Am examinat procesele verbale ale Consililor de Administratie ale societatilor din grup si am efectuat intalniri periodice cu conducerea pentru a discuta si intelege evolutia acestor actiuni legale, ipotezele si rationamentul conducerii cu privire la aceste aspecte. Am evaluat daca opiniile avocatilor externi si a departamentului juridic intern sunt in concordanta cu ipotezele si estimarile aplicate de conducere in ceea ce priveste recunoasterea si evaluarea provizioanelor sau evaluarea si prezentarea datoriilor contingente cu privire la aceste aspecte, pe baza evenimentelor si circumstantelor existente. Specialistii nostri interni au fost implicati, daca a fost cazul, pentru a ne asista in a analiza cazurile legale si ipotezele efectuate de conducere. De asemenea, am evaluat caracterul adecvat al informatiilor prezentate cu privire la provizioane si datorii contingente rezultate din aceste actiuni legale.
Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of goodwill and property, plant and equipment *Rompetrol Rafinare Group's disclosures about goodwill and property, plant and equipment, including the related impairment, are included in Note 4, Note 5 and Note 6 respectively.*	
Rompetrol Rafinare Group is required to test, at least annually and when impairment indicators exist,*the amount of goodwill for impairment. As at 31 December 2017, the carrying value of goodwill is USD 83 million and is material to our audit. The goodwill impairment testing was performed at the level of one cash-generating unit (CGU) – Downstream, to which the respective goodwill was allocated.*	*Our audit procedures included, among others:* · *we analysed and evaluated the management's assessment of the existence of impairment indicators for property, plant and equipment and goodwill, respectively, considering also whether the impairment testing covered all significant cash generating units/individual assets for which impairment indicators existed at the end of the reporting period;*

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Property, plant and equipment (PPE) is also significant to our audit because of the magnitude of the balance sheet position of USD 1,255 million as at 31 December 2017. Furthermore, the management's assessment of impairment indicators for CGUs and individual assets respectively involves consideration of various sources of information, including factors related to the economic environment and industry specific factors. In addition, in 2017 the Group changed its accounting policy for measurement of buildings, from cost model to revaluation model, which led to a net increase in the carrying value of buildings of USD 129 million. *The oil and gas industry went through significant changes following a decline in oil and gas prices since late 2014, which resulted in capacity shutdowns and deferred investments by some players in the industry. As of 31 December 2017 the management has identified impairment indicators and has performed separate impairment testing in respect of the three CGUs' identified: Downstream, with a PPE carrying value of USD 207 million, Refining with a PPE carrying value of USD 919 million and Petrochemicals with a PPE carrying value of USD 55 million, resulting in no impairment loss being recognised.* *The impairment testing of goodwill and property, plant and equipment is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in South East Europe.*	· *we compared the actual production/sales volumes and costs in 2017 of each cash generating unit with the production/sales volumes and costs estimates in the budget prepared in 2017;* · *we compared the future short and long term oil and gas prices and product margins used in the Group's budgets to consensus analyst's forecasts and those adopted by other international oil companies;* · *we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;* · *we involved our internal valuation specialists to assist us in evaluating the key assumptions and the methodologies used by Rompetrol Rafinare Group for the impairment testing of goodwill and property, plant and equipment. Our evaluation was focused on the discount rate estimate, on the sensitivity analysis of the CGUs' recoverable amounts to changes in the significant assumptions, as well as on the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected sales prices, production/sales volumes, product margins, working capital changes, etc.) by analysing their consistency with the general and industry-specific economic environment, relevant available market information and the business plans of the Group.* · *we tested the mathematical accuracy of the models;* *As part of our specific audit procedures on revaluation of buildings we obtained the valuation reports issued by the external valuation experts engaged by the Group and performed the following procedures:* · *we assessed the independence and the competence of the external valuation experts;*

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	· *we involved our internal valuation specialists to assist us in the evaluation of the valuation methodologies used and testing the main assumptions (including indexation factors used in deriving replacement cost using the indirect/indexation method, testing the remaining and total useful lives assumptions for the valued assets by classes, estimation of specific depreciation factors for idle or obsolete assets, testing market based inputs where relevant) against historical trends and external data;* · *we tested on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraisers.* *Furthermore, we assessed the adequacy of the Group's disclosures about goodwill and property, plant and equipment, including the related impairment.*
Recoverability of deferred tax assets *Rompetrol Rafinare Group's disclosures about deferred tax assets are included in Note 13.*	
As presented in Note 13 to the financial statements, as at 31 December 2017, the Company recognized a net deferred tax asset of USD 36 million resulting from tax losses carried forward. *Deferred tax assets are significant to our audit because of the magnitude of the balance sheet position as at 31 December 2017 and the fact that the estimation process requires management judgement to assess the recoverability of the balance, in particular by reference to evidence for sufficient forecasted taxable income against which tax losses can be utilised, some of which are expected to arise a number of years in the future.*	*Our audit procedures focused on assessing the key management assumptions for the deferred tax asset recoverability such as forecasts which underpin the asset recognition, including summaries of tax losses expiry dates. We evaluated the consistency of these forecasts with the long term business plans used by management to manage and monitor the performance of the business.* *Our internal tax specialists were involved, as appropriate, in our audit procedures in the current taxation area and the effect of any relevant evaluations was taken into consideration in our assessment of the taxable profit projections.* *Furthermore, we assessed the adequacy of the Group's disclosures regarding deferred tax assets.*

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Completeness and appropriateness of provisions for litigations *Rompetrol Rafinare Group's disclosures about litigations are included in Note 27.*	
The Group is involved in various and significant litigations, including in relation to regulatory and/or governmental proceedings as well as investigations by tax authorities which are presented in Note 27 to the financial statements. This area is significant to our audit due to the inherent uncertainties over the final outcome of these litigations, complexity of the cases and the significant judgement applied by the management in estimating the final outcome of such assessments and exposures (i.e. whether a liability should be recognized or a contingency should be disclosed and whether the potential outflows can be reliably estimated). *Due to the significance and complexity of these litigations, adverse outcomes could potentially impact the Group's reported financial performance and financial position.*	*Our audit procedures included, among others, obtaining legal confirmations from the Group's external lawyers advising on these matters and supporting documentation from the Group's internal legal counsel regarding the status of these litigations. We have inspected the minutes of the Board of Directors' meetings and held periodic meetings with management to discuss and understand the developments in legal proceedings and the management assumptions and judgement in respect of these matters. We assessed whether the opinions of external lawyers and internal legal counsel are consistent with the assumptions and estimates applied by management regarding recognition and measurement of provisions or measurement and disclosure of contingent liabilities in respect of these matters, based on the facts and circumstances available. Our internal specialists were involved, where appropriate, to assist us to analyse the legal cases and the assumptions made by management.* *We further evaluated the adequacy of disclosures regarding provisions recognised and contingencies resulting from legal proceedings.*

Alte informatii
Other information

Alte informatii includ Raportul administratorilor, dar nu includ situatiile financiare consolidate si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.
The other information comprises the Administrators' Report, but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

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Opinia noastra de audit asupra situatiilor financiare consolidate nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.
Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In legatura cu auditul efectuat de noi asupra situatiilor financiare consolidate, responsabilitatea noastra este de a citi aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare consolidate sau cunostintele pe care le-am obtinut in urma auditului sau daca acestea par sa includa erori semnificative. Daca, in baza activitatii desfasurate, ajungem la concluzia ca exista erori semnificative cu privire la aceste alte informatii, noi trebuie sa raportam acest lucru. Nu avem nimic de raportat in acest sens.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare
Responsibilities of Management and Those Charged with Governance for the Financial Statements

Conducerea Grupului are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare consolidate in conformitate cu Standardele Internationale de Raportare Financiara adoptae de Uniunea Europeana, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare consolidate care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.
Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

La intocmirea situatiilor financiare consolidate, conducerea este responsabila sa evalueze abilitatea Grupului de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze Grupul sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Grupului.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsabilitatile auditorului pentru auditul situatiilor financiare
Auditor's Responsibilities for the Audit of the Financial Statements

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare consolidate, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor luate in baza acestor situatii financiare consolidate.
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare consolidate, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.

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- *Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control*.

- Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Grupului.
- *Obtain an understanding of internal control relevant to the audit 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 Group's internal control*.

- Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management*.

- Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoieli semnificative privind capacitatea Grupului de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare consolidate sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Grupul sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern*.

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- Evaluam prezentarea, structura si continutul general al situatiilor financiare consolidate, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare consolidate reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- *Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation*.

- Obtinem suficiente probe de audit adecvate cu privire la informatiile financiare ale entitatilor sau activitatilor din cadrul Grupului pentru a exprima o opinie asupra situatiilor financiare consolidate. Suntem responsabili pentru indrumarea, supravegherea si efectuarea auditului la nivelul grupului. Suntem singurii responsabili pentru opinia noastra de audit.
- *Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.*

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatarile semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

De asemenea, prezentam persoanelor responsabile cu guvernanta o declaratie cu privire la conformitatea noastra cu cerintele etice privind independenta si le comunicam toate relatiile si alte aspecte care pot fi considerate, in mod rezonabil, ca ar putea sa ne afecteze independenta si, unde este cazul, masurile de siguranta aferente.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Dintre aspectele pe care le comunicam persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanta in cadrul auditului asupra situatiilor financiare consolidate din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Raport cu privire la alte cerinte legale si de reglementare
Report on Other Legal and Regulatory Requirements

Raportare asupra unor informatii, altele decat situatiile financiare si raportul nostru de audit asupra acestora
Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii", referitor la Raportul administratorilor, noi am citit Raportul administratorilor si raportam urmatoarele:

a) in Raportul administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare consolidate la data de 31 decembrie 2017, atasate;
b) Raportul administratorilor, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, Anexa 1, punctele 15-19, 26-28
c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare consolidate intocmite la data de 31 decembrie 2017 cu privire la Grup si la mediul acestuia, nu am identificat informatii eronate semnificative prezentate in Raportul administratorilor.

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Administrators' Report, we have read the Administrators' Report and report that:

a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2017;
b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19, 26-28;
c) based on our knowledge and understanding concerning the Group and its environment gained during our audit of the consolidated financial statements as at December 31, 2017, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Alte cerinte privind cuprinsul raportului de audit conform Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului
Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Numirea si aprobarea auditorului
Appointment and Approval of Auditor

Am fost numiti auditori ai Grupului de catre Adunarea Generala a Actionarilor la data de 13 aprilie 2017 pentru a audita situatiile financiare consolidate ale exercitiului financiar incheiat la 31 decembrie 2017. Durata totala de misiune continua, inclusiv reinnoirile (prelungirea perioadei pentru care am fost numiti initial) si renumirile anterioare drept auditori a fost de 10 ani, acoperind exercitiile financiare incheiate la 31 decembrie 2008 pana la 31 decembrie 2017.
We were appointed as auditors of the Group by the General Meeting of Shareholders on April 13, 2017 to audit the consolidated financial statements for the financial year end December 31, 2017.
Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 10 years, covering the financial periods end December 31, 2008 till December 31, 2017.

Consecventa cu raportul suplimentar adresat Comitetului de Audit
Consistency with Additional Report to the Audit Committee

Opinia noastra de audit asupra situatiilor financiare consolidate exprimata in acest raport este in concordanta cu raportul suplimentar adresat Comitetului de Audit al Grupului, pe care l-am emis in aceeasi data in care am emis si acest raport.
Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Group, which we issued on the same date as the issue date of this report.

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Servicii non-audit
Provision of Non-audit Services

Nu am furnizat Grupului servicii non-audit interzise mentionate la articolul 5 alineatul (1) din Regulamentul (UE) nr. 537/2014 al Parlamentului European si al Consiliului si ramanem independenti fata de Grup pe durata auditului.
Nu am furnizat Grupului si entitatilor controlate de aceasta alte servicii decat cele de audit statutar si cele prezentate in raportul anual si in situatiile financiare consolidate.
No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.
In addition to statutory audit services and services disclosed in the annual report and in the consolidated financial statements, no other services which were provided by us to the Group, and its controlled undertakings.

In numele,
On behalf of,

Ernst & Young Assurance Services SRL
Bd. Ion Mihalache 15-17, etaj 21, Bucuresti, Romania
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 77/15 august 2001
Registered with the Chamber of Financial Auditors in Romania
Nr. 77/15 August 2001

Nume Auditor / Partener: Alexandru Lupea
Name of the Auditor/ Partner: Alexandru Lupea
Inregistrat la Camera Auditorilor Financiari din Romania
Cu nr. 273 /5 ianuarie 2001
Registered with the Chamber of Financial Auditors in Romania
No. 273 / 5 January 2001

Bucuresti, Romania
27 martie 2018
Bucharest, Romania
27 March 2018

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