

**NOTE No. 1 EGMS**

To: THE SHAREHOLDERS OF ROMPETROL RAFINARE S.A.

Referring to: Changing the pricing formula for crude acquisitions in response to changes on the market conditions due to current situation in Ukraine and related EU Sanctions;

The need to conclude the Amending Addendum to the Crude Oil Sales Contract no. RR01/01.01.2021;

The impact of the pricing formula change on the Advance Pricing Agreement granted by the Romanian Tax Authorities for 2021 – 2025 crude acquisitions

Dear Sirs,

We are hereby submitting to your attention the proposed Amending Addendum to the Crude Oil Sales Contract no. RR01/01.01.2021 (the “Contract”) (Annex 1), by which the Parties shall agree to change the current price formula of the Contract.

A. Summary of the current terms of conditions and the pricing formula as agreed by the Contract, as well as of the Advance Pricing Agreement (“APA”) granted to Rompetrol Rafinare by the Romanian Tax Authorities (“RTA”) for 2021 – 2025 crude acquisitions:

1. The Contract, as it is executed so far, was ratified by the Extraordinary General Meeting of the Shareholders of Rompetrol Rafinare S.A. by Resolution no. 5 dated April 28th, 2021.

2. The Contract provides for the acquisition by Rompetrol Rafinare S.A., as buyer, from KazMunayGas Trading A.G. (“KMGT”), as seller, up to 5.400.000 metric tons annually of crude oil. The crude oil supplied under the Contract will be of the usual export quality and the requirements applicable to one of the following grades of crude oil: Urals (blended crude oil for export), CPC blended crude oil, Siberian light crude oil (having source KMG NC/Kazakhstan) and crude oil bought from 3rd parties (non-KMG sources).



3. The Contract is valid for a period of 5 years as of the date of entry into force, respectively from 1 January 2021 until 31 December 2025.

4. The pricing formula is based on market quotations of crude oil as published in Platts crude oil Marketwire, by crude type and source: Brent (dated) as adjusted by the Brent – Urals differential (Urals (Mediterranean) spread vs FWD dated Brent), CPC FOB AFRA. Details on pricing conditions are specified within Annex 1.

5. The current crude pricing formulae are accepted by RTA as providing for an arms' length price under the terms and conditions of the Advance Pricing Agreement on Rompetrol Rafinare' 2021 – 2025 crude acquisitions as granted by ANAF's Order no. 453/23.03.2022 .

B. Market conditions. EU Sanctions impacting the crude supply on the market.

1. As early February 2022, the market started to react to the events in Ukraine, and there has been a clear avoidance of trading and/or buying Russian oil from the market even before any specific sanctions on Russian URAL crude was implemented.

2. By EU Regulation No 833/2014 concerning the implementation of restrictive measures in view of Russia's actions destabilizing the situation in Ukraine, as amended by EU Regulation 879/2022, it was introduced a prohibition on 4 June 2022 on the acquisition, import or transfer of crude oil or petroleum products directly or indirectly, if they come from Russia or are exported from Russia - Article 3m, paragraph 3), letter a).

The prohibition on the acquisition or import of crude oil (CN code 2709 00) shall not apply until 5 December 2022 (i) in respect of short-term spot transactions concluded and executed before that date, (ii) in respect of the execution of purchase contracts, import or transfer of goods falling within CN code 2709 00 concluded before 4 June 2022 (iii) or ancillary contracts necessary for the performance of such contracts, provided that the relevant Member States notify the relevant contracts to the Commission by 24 June 2022 and the short-term spot transactions within 10 days of their completion;

It follows from the reading of paragraph 3(a) of Article 3m of Regulation 833/2014, as amended by EU Regulation 879/2022, that December 5, 2022 is the deadline by which it may still be possible to import crude oil under the conditions of notification to the European Commission, of transactions completed before June 4, which meet the above conditions.



Although Rompetrol Rafinare SA has taken the steps to notify the Romanian State of the Contract concluded with its oil supplier, after December 5th, 2022, when the ban will be extended to the notified Russian crude oil also, Rompetrol Rafinare SA needs to look for other types/sources of crude oil.

3. Another very important and stringent aspect to be acknowledged is the financing aspect of crude acquisitions. There is a very high probability of facing difficulties when trying to finance transactions with Russian origin crude, even before the deadline phase-

out period (December 5) due to increased reluctance of banks and others (insurers, shipowners, etc.) to get involved in transactions having as object acquisition/Russian crude shipments to the EU (although, in theory, they are still possible until 5th of December).

Moreover, it is necessary to highlight the obvious reservations of Romanian banks to finance crude oil of Russian origin, starting with June 4, 2022, the date when international sanctions on this product came into force. At this point, banks demand details so to understand the mechanism by which imports of crude oil of Russian origin will operate between June and December 5, 2022. This attitude is also due to the institutional uncertainty on the information needed for the notification form presenting the notified exemptions from the ban, as admitted until 5 December. The implementation of sanctions and exceptions goes through a period of normal clarification. These aspects are also reflected in a negative way in the attitude of banks toward these exceptions, being able to lead to a refusal to finance any transaction with crude oil of Russian origin, which is the subject of a contract concluded after 4 June, regardless of whether it is a spot or not.

C. The need to conclude an Amending Addendum to the Crude Oil Sales Contract

Given all the above, as well as the following:

1. EU decision to prohibit the purchase, import or transfer of crude oil and certain petroleum products from Russia into the EU, as adopted and regulated by EU Regulation no. 833/2014 on the implementation of restrictive measures taking into account the actions of Russia destabilizing the situation in Ukraine, amended by EU Regulation no. 879/2022, **will generate a total elimination of the transactions with Russian Oil,**

2. EU economic sanctions and market reaction have led to a sudden increase in the Brent-Urals Differential, which has therefore ceased to be an appropriate indicator of the market price for Urals crude oil originating from other countries than Russian Federation,



as is the case with Kazakhstan crude oil. Same is the case of Siberian crude oil (Light Crude Oil - origin Kazakhstan), a crude oil that is lighter than the Urals type crude but heavier than the CPC crude, whose price quotation CIF Black Sea is correlated with the quotation for Urals - depending on the availability of Urals crude oil, Siberian Light Crude Oil crude oil can replace, from a technical point of view, up to 60-65% of Urals crude oil,

3. Since the Kazakh origin crude is in a higher demand due to the market avoidance of/and later on ban on the Russian oil, in the transactions with Kazakh oil the pricing must be corrected, based on the reference to Brent-Urals Differential published in Platts crude oil Marketwire in order to ensure a proper market pricing reference – there is already information that an attempt has been made to publish a new market reference in Platts' for KEBCO crude oil.

4. The proposed correction element to be added to the pricing formula in the Contract (see point D below) will in fact lead to a price for URALS grade that it is referenced to the CPC grade market price, the reason being that for this grade the market conditions have not been impacted as severely as it was in the case of the URALS grade; the proposed pricing formula also provides for a discount of 1\$/barrel in relation to the difference between the two traded grades (CPC vs Urals); moreover, the proposed new formula will be used only in so far the market reference for Urals is unreliable due to market conditions being impacted by the war and EU sanctions, following that when the market stabilises the previously agreed formula will resume being applied;

5. Rompetrol Rafinare has a continuous need of heavy crude oil (of Urals quality) which represents 80-90% of the optimal production diet due to the technological and economic characteristics of Petromidia Refinery; should Rompetrol Rafinare not be able to buy crude due to EU sanctions and/or Kazakhstan not willing to provide crude due to out-of-the-market pricing for its crude, it may go to a temporary suspension of activity,

6. Given the current high market refining margins, an adjustment of the pricing formula as proposed and described above will continue to ensure Rompetrol Rafinare positive results since it will secure crude supplies for refining at the current refining margins – a gross estimation of results in the scenario where the pricing formula will be changed as proposed from July 2022 shows positive results for 2022 financial year so that, by the first quarter of 2023, the Company will be in a tax paying position due to covering all available previous fiscal losses;



7. The scenario in which the Company would try to continue buying crude, via its trader KMG, from Kazakhstan/KMG NC companies without correcting the pricing formula for heavy crude from Kazakhstan cannot be consider a realistic option as:

- (i) under current market constraints where UE sanctions against Russia are already decided, Rompetrol Rafinare will no longer be able to keep buying (cheap) Russian heavy crude;
- (ii) KMG NC is unlikely to supply Kazakh heavy crude at the level of 3-4 vessels per month as per Petromidia optimum operating rates at a price based on Platt's quotation for Urals that is no longer a market price;
- (iii) KMG had requested KMG NC companies for KEBCO cargoes needed by Rompetrol Rafinare for processing and it negotiated the proposed change of the pricing formula with these suppliers;

Concluding, as the phased-in embargo on Russian crude is now implementing, and banks are reluctant to finance Russian crude during the transition period of until December 5, 2022, Rompetrol Rafinare is facing the risk not to have crude for processing, should the KEBCO crude from KMG NC will not be supplied adjusting the crude pricing to the new market conditions. Thus, the risk of temporary suspension/cessation of the activity of Petromidia Refinery is becoming imminent in the current geopolitical context. Hence, it comes as a necessity for both Rompetrol Rafinare, as buyer, as well as for KMG Trading, as Seller, to change the current pricing formula in order for the Contract to be executed at its full extent.

D. The draft of the Addendum – the new proposed pricing formula

It is proposed that starting with July 7th, 2022 the Contract to provide for two pricing formulae for KEBCO and Siberian follows:

“PRICING FORMULAS FOR KAZAKH EXPORT BLEND CRUDE OIL (EBCO/URALS) AND SIBERIAN LIGHT):

PRICING FORMULA NO.1

THE PRICE CIF MIDIA, ROMANIA, IN US DOLLARS PER NET US BARREL WILL BE THE AVERAGE OF THE 5 (FIVE) MEAN (HIGH/LOW) BRENT (DATED) QUOTATIONS AS PUBLISHED IN PLATT'S CRUDE OIL MARKETWIRE IMMEDIATELY AFTER THE BILL OF LADING (B/L) DATE (B/L DATE = ZERO) + PREMIUM/DISCOUNT CALCULATED AS FOLLOWS:



- SPREAD URALS (MEDITERRANEAN) - THE AVERAGE VALUE OF 5 (FIVE) AVERAGE (HIGH/LOW) QUOTATIONS PUBLISHED UNDER THE HEADING OF URALS (MEDITERRANEAN) «SPREAD VS FWD DATED BRENT» BY «PLATT'S CRUDE OIL MARKETWIRE» STARTING FROM THE 15TH CALENDAR DAY BEFORE THE FIRST DAY OF LOADING WINDOW (FIRST DAY OF LOADING WINDOW = DAY ZERO), IF NO QUOTATION AVAILABLE ON THE 15TH CALENDAR DAY, THEN THE NEXT PUBLISHED QUOTATION SHALL APPLY

OR

- SIBERIAN LIGHT CIF – THE AVERAGE OF THE MEAN OF THE HIGH/LOW FIVE CONSECUTIVE SIBERIAN LIGHT CIF “SPREAD VS FWD DATED BRENT” QUOTATIONS APPEARING IN THE PLATT'S CRUDE OIL MARKETWIRE FROM THE 15TH CALENDAR DAY UNTIL THE FIRST DAY OF LOADING WINDOW (THE FIRST DAY OF LOADING WINDOW = DAY ZERO). IF NO QUOTATION AVAILABLE ON THE 15TH CALENDAR DAY, THEN THE NEXT PUBLISHED QUOTATION SHALL APPLY

- PLUS USD 1.50/MT - TRADER'S MARGIN

- MINUS USD 0.20/NET BBL – SUPPLIER'S DISCOUNT

- PREMIUM/DISCOUNT (+/-) TO VESSEL CARGO SIZE:

- IF THE VESSEL IS SUEZMAX CLASS, THEN THE PREMIUM/DISCOUNT SHALL BE BASED ON THE AVERAGE VALUE OF 5 (FIVE) AVERAGE (HIGH/LOW) QUOTATIONS FOR URL-80-135 PUBLISHED BY «THOMSON REUTERS» STARTING FROM THE 15TH CALENDAR DAY BEFORE THE FIRST DAY OF LOADING WINDOW (FIRST DAY OF LOADING WINDOW = DAY ZERO)

- IF THE VESSEL IS AFRAMAX CLASS THEN THE PREMIUM/DISCOUNT = 0 (ZERO)

THE FINAL UNIT PRICE SHALL BE ESCALATED BY USD 0.003 PER NET US BARREL FOR EACH WHOLE 0.10 OF A DEGREE API ABOVE 31.00 API, AND DE-ESCALATE BY USD 0.003 PER NET US BARREL FOR EACH WHOLE 0.10 OF A DEGREE API BELOW 31.09 API.

THE FINAL PRICE SHALL BE CALCULATED TO THREE (3) DECIMAL PLACES AND THE FOLLOWING ARITHMETIC RULES SHALL BE APPLIED TO DO THIS:

(I) IF THE FOURTH DECIMAL PLACE IS FIVE (5) OR GREATER THAN FIVE (5) THEN THE THIRD DECIMAL PLACE SHALL BE ROUNDED UP TO THE NEXT DIGIT;

(II) IF THE FOURTH DECIMAL PLACE IS FOUR (4) OR LESS THAN FOUR (4) THEN THE THIRD DECIMAL PLACE WILL BE UNCHANGED.

PRICING FORMULA NO.2

THE PRICE CIF MIDIA, ROMANIA IN US DOLLARS PER NET US BARREL WILL BE THE AVERAGE OF THE 5 (FIVE) MEAN (HIGH/LOW) BRENT (DATED) QUOTATIONS AS PUBLISHED IN PLATT'S CRUDE OIL MARKETWIRE IMMEDIATELY AFTER THE BILL OF LADING (B/L) DATE (B/L DATE = ZERO) + PREMIUM/DISCOUNT CALCULATED AS FOLLOWS:

- SPREAD URALS: THE AVERAGE VALUE OF 5 (FIVE) AVERAGE (HIGH/LOW) QUOTATIONS PUBLISHED UNDER THE HEADING OF URALS (MEDITERRANEAN) «SPREAD VS



FWD DATED BRENT» (AAGXX00) BY «PLATT'S CRUDE OIL MARKETWIRE» STARTING FROM THE 15TH CALENDAR DAY BEFORE THE FIRST DAY OF LOADING WINDOW (FIRST DAY OF LOADING WINDOW = DAY ZERO); IF NO QUOTATION AVAILABLE ON THE 15TH CALENDAR DAY, THEN THE NEXT PUBLISHED QUOTATION SHALL APPLY

- PLUS USD 1.50/MT - TRADER'S MARGIN
- MINUS USD 0.20/NET BBL – SUPPLIER'S DISCOUNT
- PREMIUM/DISCOUNT (+/-) TO VESSEL CARGO SIZE:
- IF THE VESSEL IS SUEZMAX CLASS, THEN THE PREMIUM/DISCOUNT SHALL BE BASED ON THE AVERAGE VALUE OF 5 (FIVE) AVERAGE (HIGH/LOW) QUOTATIONS FOR URL-80-135 PUBLISHED BY «THOMSON REUTERS» STARTING FROM THE 15TH CALENDAR DAY BEFORE THE FIRST DAY OF LOADING WINDOW (FIRST DAY OF LOADING WINDOW = DAY ZERO)
- IF THE VESSEL IS AFRAMAX CLASS THEN THE PREMIUM/DISCOUNT = 0 (ZERO)
- PLUS BUYER'S PREMIUM CALCULATED IN COMPLIANCE WITH THE FOLLOWING FORMULA:
- FOR URALS: SPREAD CPC BLEND CIF MINUS SPREAD URALS (MEDITERRANEAN) MINUS 1 USD
- FOR SIBERIAN LIGHT: SPREAD CPC BLEND CIF MINUS SPREAD SIBERIAN LIGHT CIF MINUS 1 USD"

An important aspect to be mentioned is that the pricing formula no. 2 for calculation of the price for Urals (KEBCO) and Siberian light crude oil shall be used solely during the period when (i) market conditions existing at the time of delivery; and (ii) the price set out by the Seller's supplier, justify the elimination of the differential as the basis for determining the price.

The Company will also continue to seek alternatives to crude oil in markets other than Kazakhstan through KMGIT, which is technically and economically optimal, within the limits and in accordance with the legislation in force.

E. The impact of the change in pricing formula on the Advance Pricing Agreement

The following aspects of the APA are to be considered when addressing the intended change of pricing formula for URALS acquisitions:

a) First, the fact that the pricing formula for crude acquisitions by reference to international quotations is embedded within the APA, as mentioned above APA provides for a generic description of the pricing that is "the relevant international quotations adjusted by a discount/premium, as it is customary on the market", without any regard



to the crude grade (URALS, CPC). Thus, changing the agreement on the pricing formula for the URALS can be considered a change in the accepted pricing of the transaction.

b) Second, the APA provides for several critical assumptions to be met in order for the Romanian Tax Authority (RTA) to be bound by the APA, including:

- "There will be no substantial changes in terms of organizational structure and operations of RRC and KMGT other than those determined by economic and business conditions, if they take place within the same business model";
- "The provisions of the Sale-Purchase Contract remain valid for the entire period of APA".

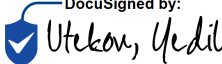
Or, while changing the formula for the crudes modifies the prior provision of the Sale-Purchase Contract, such change it is not a substantial one in terms of operations of RRC and KMGT and, moreover, it is one determined by economic and business conditions within the same business model.

Thus, in order to secure the APA obtained to the maximum extent **Rompetrol will maintain its continuous and transparent dialog with RTA and ask for a revision of the APA, should the RTA consider that such a revision is indeed required.**

Given all the above please approve the ratification of the conclusion of the Amending Addendum no 1 dated 07 July 2022, as per the draft submitted as annex to this informative note.

We specify that the request for ratification instead of approval is required because the Addendum in question will be signed no later than July 7, 2022 so that starting with the same date, the Company can supply with crude in the new conditions, for the operation of Petromidia refinery and thus to avoid eventual negative effects that would be caused by a lack of raw material.

**Chairman of the Board of Directors of Rompetrol Rafinare S.A.,
Yedil Utekov**

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