



## ANNUAL REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE FINANCIAL YEAR 2014

2014 figures include consolidated financial statements in accordance with International Financial Reporting Standards („IFRS”). Consolidated financial statements of Rompetrol Rafinare 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

Romp petrol Rafinare (formerly known as Petromidia) is 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, The KMG International Group 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 efficient production and focus on the products required by the market (especially diesel).

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 2014.

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 category II. On 31.12.2014, 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.

Rompetrol Rafinare shares' symbols:	
Bucharest Stock Exchange	RRC
Bloomberg	RRC RO

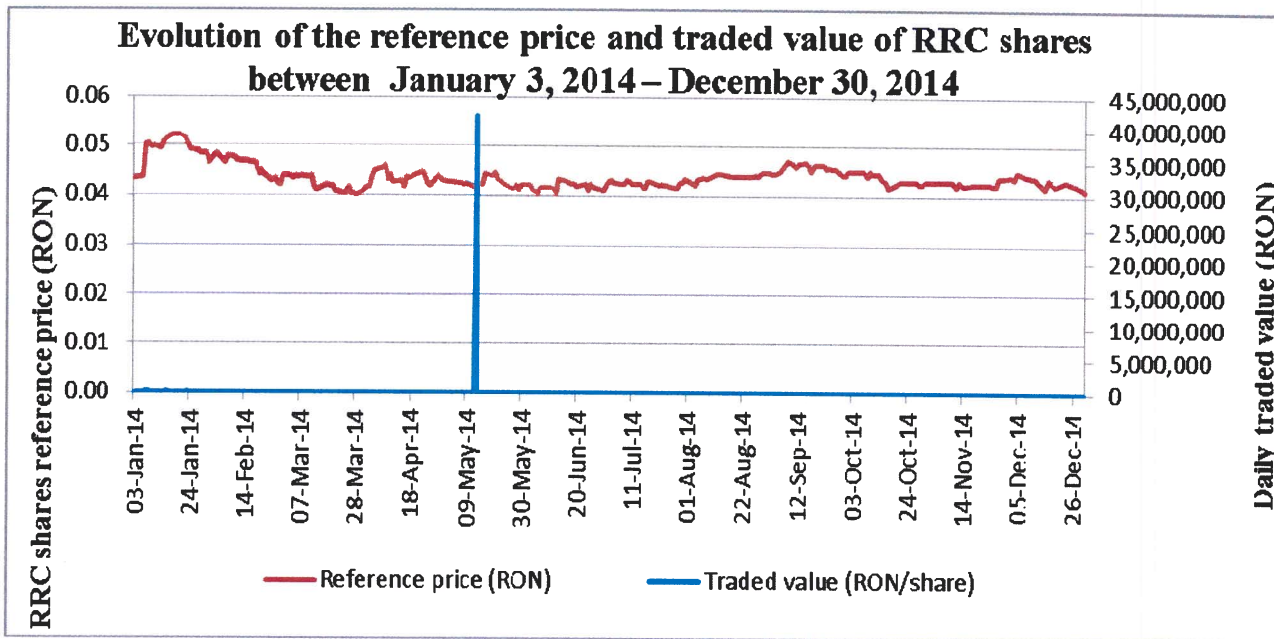
Rompetrol Rafinare Shares	2012	2013	2014
Number of shares	44,109,205,726	44,109,205,726	44,109,205,726
Stock exchange capitalization, mill. of lei <sup>1</sup>	1,389,440	1,887,874	1,856,998
Stock exchange capitalization, mill. of EUR <sup>2</sup>	313,707	422,920	414,194
Maximum price, lei <sup>3</sup>	0.0429	0.0589	0.052
Minimum price, lei <sup>4</sup>	0.0276	0.0309	0.04
Price at the end of the year, lei	0.0383	0.0421	0.0415

<sup>1</sup> Calculated based on the share price valid on the last trading day of the year of analysis, respectively December 30, 2014.

<sup>2</sup> Calculated at the EUR exchange rate (4.4834) valid during the last trading session of the year of analysis, respectively December 30, 2014.

<sup>3</sup> Registered on January 20, 2014.

<sup>4</sup> Registered on March 28, 2014.



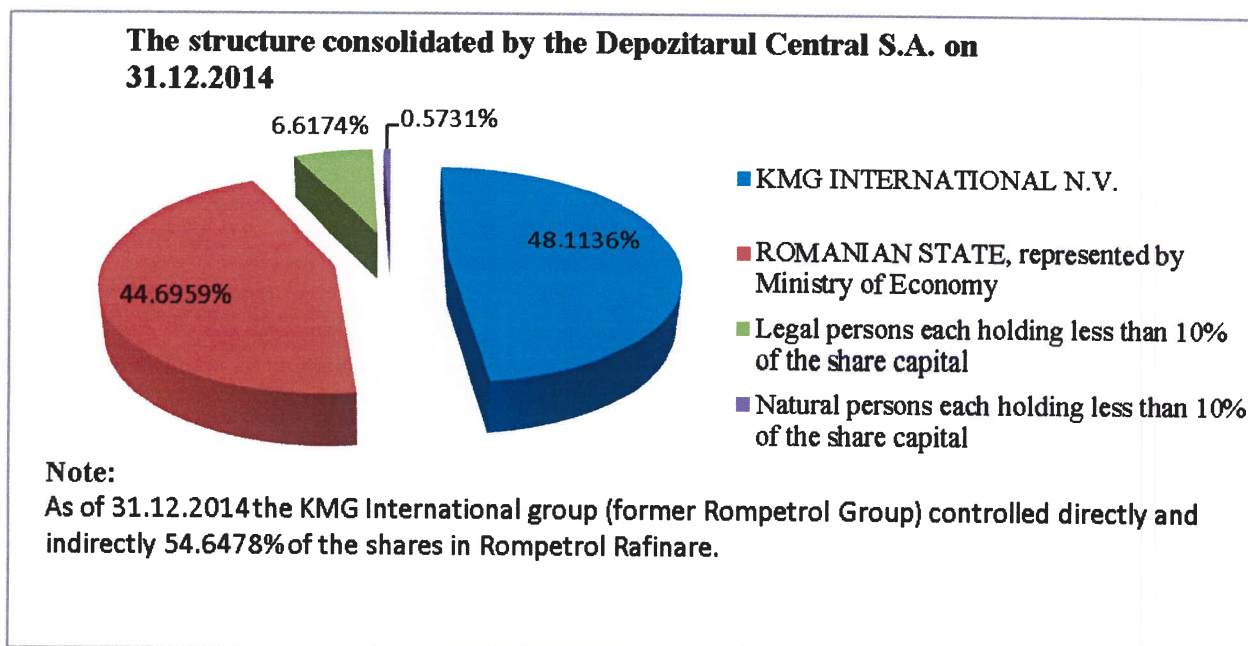
**Weighted Average Price (WAP) of RRC shares during 2014 = 0.04259583 lei/share;**

The volume traded in May on REGS and DEALS market represents 95.7% of the entire volume traded in 2014 (total traded volume in 2014 = 44,254,785.75 lei)

**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, 2014, the structure of the Company's significant shareholders is presented in the following graph:



**Company's own shares**

At 31.12.2014, ROMPETROL RAFINARE S.A. held a number 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 0.029% of Company's share capital.

The Company did not trade (by acquiring or selling) its own shares during 2014.

**The Financial Calendar proposed for the year 2015**

Financial Calendar	Date
<i>Presentation of the preliminary, unaudited, individual and consolidated results of the year 2014 and fourth Quarter of 2014</i>	<i>February 16<sup>th</sup>, 2015</i>
<i>Ordinary General Assembly of Shareholders, to approve the annual financial results of year 2014</i>	<i>April 29<sup>th</sup> / April 30<sup>th</sup>, 2015</i>
<i>Publication of the 2014 Annual Report (i.e. publication of the financial results of 2014)</i>	<i>April 30<sup>th</sup>, 2015</i>
<i>Presentation of the results recorded during the first quarter of 2015</i>	<i>May 14<sup>th</sup>, 2015</i>
<i>Presentation of the results recorded during the first semester and second quarter of 2015</i>	<i>August 13<sup>th</sup>, 2015</i>
<i>Presentation of the results recorded during the third quarter of 2014 and between January – September 2015</i>	<i>November 13<sup>th</sup>, 2015</i>

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](http://www.rompetrol-rafinare.ro), in the Investor Relations section.

**Investor Relations Contact**

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](mailto:office.rafinare@rompetrol.com).



## STRATEGY

To assure competitiveness of the Kazakh crude based products in the Black Sea market, an ambitious upgrade program has been executed to bring the Petromidia refinery in Romania to world-class standards, by increasing the processing capacity up to 5 million tons per year.

This upgrade makes Petromidia the largest refinery in Romania and one of the largest in the Black Sea Region. The refinery is strategically located on the Black Sea shore, with easy access to several markets for which forecasted demand is expected to grow over the next years, at the same time offering certain advantages, such as: good contribution margins or room for additional market share growth.

The 2015-2019 strategy is defined in cost optimization projects and retail network expansion. The main objective for the 2015-2019 strategy is to expand distribution operations in countries around the Black Sea, to benefit from increased vertical integration with refining operation for improved financial performance through the followings:

- Strengthen its Retail network presence following the upgrading of the Petromidia Refinery.
- Initiatives to reduce cost in refining with the purpose to streamline processes and increase profitability:
  - The material technological improvements brought by the Refinery Upgrade Package are expected to increase refinery savings in net profit and USD 4/ton from expected savings in processing costs.
  - Further to the technological improvements, Petromidia refinery management will continue to focus on cost competitiveness (further cost reduction initiatives) and energy efficiency for optimum refinery performance, „Change for good” project.

## HIGHLIGHTS – CONSOLIDATED

	2014	2013	%	2014	2013	%
Financial	USD	USD		RON	RON	
		<b>Restated*</b>				
Gross Revenues	5,625,298,483	4,899,808,638	15%	20,739,350,447	18,064,614,486	15%
Net Revenues	4,349,048,980	3,910,907,653	11%	16,034,073,779	14,418,734,335	11%
EBITDA	86,392,660	28,965,159	198%	318,512,459	106,788,748	198%
EBITDA margin	2.0%	0.7%		2.0%	0.7%	
EBIT	10,112,481	(35,441,500)	N/A	37,282,692	(130,665,721)	N/A
Net profit / (loss)	(58,445,246)	(95,608,192)	-39%	(215,475,937)	(352,488,281)	-39%
Net Profit / (loss) margin	-1.3%	-2.4%		-1.3%	-2.4%	

Rompetrol Rafinare Constanta (RRC) gross revenues reached USD 5.625 billion an increase of 15% compared to last year. The increase in gross revenues is mainly due to increase in volumes of petroleum products sold.

The consolidated accounts are analyzed in in the following sections for each business unit.

**ENVIRONMENT**

		2014	2013	%
Brent Dated	USD/bbl	99	109	-9%
Ural Med	USD/bbl	98	108	-10%
Brent-Ural Differential	USD/bbl	0.99	0.36	173%
Premium Unleaded 10 ppm FOB Med	USD/t	905	981	-8%
Diesel ULSD 10 ppm FOB Med	USD/t	850	931	-9%
RON/USD Average exchange rate		3.35	3.33	1%
RON/USD Closing exchange rate		3.69	3.26	13%
RON/EURO Average exchange rate		4.44	4.42	1%
RON/EURO Closing exchange rate		4.48	4.48	0%
USD/EURO Closing rate		1.22	1.38	-12%
Inflation in Romania*		0.83%	1.57%	

Source: Platt's, JBC Energy

At \$99.34 per barrel on an average annual basis, Brent's 2014 price was 8.6% lower than the 2013 figure. The first half of 2014 saw little price volatility with prices averaging at around \$109 - very close to the 2013 average. Prices peaked in mid-June around \$115 per barrel, before starting a more-or-less steady slide that left Brent at just \$55 at the end of the year. Quarterly average for Q4 was of \$76.58 per barrel. There are several fundamental reasons for the price collapse, chief among them too much supply (growth from US & Brazil plus rebound from Libya).

Urals Med managed to keep a relatively narrow discount against the North Sea benchmark, averaging a discount of around \$1 per barrel over the year. This was, however, considerably wider than the extremely tight average to Dated Brent of \$0.36 per barrel seen in 2013. The Russian sour crude continued to find support in supply-related factors as the EU sanctions on Iran remained in place, while flows of Iraqi crude out of the port of Ceyhan came to a security-related halt between March and October.

Tight sweet/sour spreads also encouraged some refiners to substitute their Urals requirements with lighter and sweeter grades from the Caspian and West Africa. Pressure mounted for Urals towards the end of the year as Iraqi exports out of Ceyhan resumed after a deal was struck between the Kurdish Regional Government and Baghdad.

The year 2014 was largely a story of two halves for the Med gasoline market. After beginning the year on a relatively low note, cracks surged in Q1, bolstered by sharp declines in gasoline output in the European Med. Rising seasonal demand stepped in to provide some additional upside support in Q2, and cracks hit their annual peak in mid-July (around \$225 per metric ton), at the height of the summer driving season. After that, margins began to reverse course, pressured by increasing supply in the Atlantic Basin as refiners in both the US and Europe increased runs to take advantage of the precipitous fall in crude prices.

Mediterranean gas oil/diesel cracks remained relatively elevated in Q1 (over \$ 100 per metric ton), with imports dropping to historic lows on the back of a bitterly cold winter in the US, before falling pronouncedly in Q2 to a more than three-and-a-half year low (around \$87 per metric ton). Cracks reversed course again in early June, however, bolstered by relatively healthy regional road transportation demand, a factor that became increasingly important as retail prices began to drop in line with the fall in oil prices. Nevertheless, cracks began to slip again in late Q4 on the back of a surge in Middle Eastern and Russian exports and ended the year on a down note averaging around \$125 per metric ton.



On an annual basis Mediterranean refining margins improved markedly compared to 2013 levels and came in at \$1.88 per barrel (+ \$0.70/bbl y-o-y) for a cracking setup. The year presented itself as having had two distinctively different halves, with the performance of refining economics in the first half being under quite some pressure, while the second half offered a respite for refiners as the slump in outright prices and the associated fall in variable costs positively affected margins.

Besides lower outright prices, Med refiners also did benefit from weakening crude differentials with looser market conditions due to higher supplies and competition having lowered the benchmark Urals.

**REFINING & PETROCHEMICALS**

		2014	2013	%	2014	2013	%
<b>Financial</b>		USD	USD		RON	RON	
		<b>Restated*</b>					
Gross Revenues	USD/RON	5,145,688,683	4,495,347,505	14%	18,971,125,036	16,573,447,181	14%
Net Revenues	USD/RON	4,042,825,591	3,629,920,439	11%	14,905,089,389	13,382,790,675	11%
EBITDA	USD/RON	11,197,035	32,481,052	-66%	41,281,229	119,751,143	-66%
EBITDA margin	%	0.3%	0.9%	-69%	0.3%	0.9%	-69%
EBIT	USD/RON	(61,182,953)	(6,172,945)	891%	(225,569,311)	(22,758,414)	891%
Net profit / (loss)	USD/RON	(102,659,619)	(40,702,277)	152%	(378,485,483)	(150,061,155)	152%
Net profit / (loss) margin	%	-2.5%	-1.1%	126%	-2.5%	-1.1%	126%
Gross cash refinery margin/tonne	USD/(RON)/t	33.06	24.72	34%	121.87	91.15	34%
Gross cash refinery margin/bbl	USD/(RON)/bbl	4.55	3.40	34%	16.78	12.55	34%
Net cash refinery margin/tonne	USD/(RON)/t	5.0	(5.0)	N/A	18.5	(18.5)	-200%
Net cash refinery margin/bbl	USD/(RON)/bbl	0.7	(0.7)	N/A	2.6	(2.5)	-200%
<b>Operational</b>							
Feedstock processed	Kt	5,081	4,190	21%			
Gasoline produced	Kt	1,305	1,194	9%			
Diesel & jet fuel produced	Kt	2,630	2,031	30%			
Motor fuels sales - domestic	Kt	1,738	1,623	7%			
Motor fuels sales - export	Kt	1,990	1,443	38%			
Export	%	53%	47%				
Domestic	%	47%	53%				

*Note: Refining and Petrochemicals segment comprises the results of the company Rompetrol Rafinare SA (with respect to Petromidia and Vega refineries) together with the petrochemicals activity and Rompetrol Petrochemicals SRL. Gross refinery margin of Petromidia refinery ("PEM") is computed as follows – (Oil Product Sales – Cost of Feedstock) / Quantity of sales. Net Refinery margin is the EBITDA of Petromidia refinery divided by quantity of sales.*



Amid investment by KMG International and KazMunayGas in modernizing and increasing processing capacity, in conjunction with the petrochemical sector development, supply and distribution of fuel oil domestically but also in the Black Sea region, the refinery located on the Black Sea succeeded in 2014 achieving the operational historical records. With the completion in 2012 of the comprehensive program of modernization and refining capacity growth strategy and ambition Society sought and will continue to pursue optimization of production processes, reducing processing costs and increasing energy efficiency, while ensuring compliance with commitments on environment.

Rompetrol Rafinare S.A. gross revenues reached USD 5.145 billion in 2014 an increase by 14% as against 2013, mainly due to increase in volumes of petroleum products sold.

In 2014, the total throughput for Petromidia refinery was 5.053 million tons by 20.84% higher compared with 2013 when the total throughput was 4.181 million tons following the planned shutdown during March – April 2013 in order to perform the scheduled technological works.

In 2014 the refining capacity utilization was 93.46% higher by 7.28% compared with the last year.

On 27<sup>th</sup> of December 2014, at 1:00 AM, it was reached 5 million tons total feedstock processed, a record for Petromidia refinery since 1979.

Regarding Vega refinery, in 2014, the total throughput was 308,952 tons by 28.4% higher compared with last year when the total throughput was 240,553 tons following the planned shutdown during March – April 2013 in order to perform the scheduled technological works.

In 2014 the refining capacity utilization was 93.6% higher by 20.7% compared with the last year.

The gross refinery margin improved in 2014 compared with the same period last year, the company's financial results were positively influenced by favorable market conditions resulting in higher cracks for petroleum products.

One of the main goals was to optimize the refinery processes which brought a reduction in all costs especially those with utilities. In 2014 we started the new organizational transformation project “ Change for good” and the processing cost for Refining and Petrochemicals, reached the lowest level from the last 10 years.

For the year 2014 the polymers production was higher by 12%, the polypropylene productions reach 90k tones, a record for the last 5 years.

Starting 1<sup>st</sup> of January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A.

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with USD 1.8 billion for the year 2014.



**MARKETING**

		2014	2013	%	2014	2013	%
<b>Financial</b>		USD	USD		RON	RON	
Gross Revenues	USD/RON	3,217,275,057	2,943,112,711	9%	11,861,449,680	10,850,667,943	9%
EBITDA	USD/RON	70,770,501	47,276,973	50%	260,916,683	174,300,744	50%
EBIT	USD/RON	48,984,909	26,910,936	82%	180,597,562	99,215,239	82%
Net profit / (loss)	USD/RON	22,228,057	1,340,192		81,950,399	4,941,021	
<b>Operational</b>							
Fuels quantities sold in retail	Kt	607	641	-5%			
Fuels quantities sold in wholesale	Kt	1,043	925	13%			
LPG quantities sold	Kt	285	262	9%			

*Note: Marketing segment includes the results of Rompetrol Downstream, Rom Oil, Rompetrol Quality Control Rompetrol Logistics and Rompetrol Gas*

During 2014, the marketing segment had a turnover of USD 3.217 billion, higher with 9% compared with the year 2013, positively influenced by an increase of 13% of the wholesale quantities sold in 2014 compared with the year 2013.

During the year 2014 the exchange rate was only with 0.6% higher than the previous year, the quotations expressed in USD decreased by 7.7% for gasoline and 8.5% for diesel, the combined effect of both factors being the effective decrease in RON quotations by approximately 7.7% for gasoline and approximately 8.4% for diesel. However, contrary to the decrease in quotations, the influence of the higher excise level during 2014 compared to 2013 determined the increase in the average prices by 4.2% for gasoline and 3.0% for diesel.

At the global economy level, the economic information reported by the main oil consumers, USA and China became less relevant for the evolution of the oil prices in Q4 compared to previous periods. The main impact in prices is due to the high production levels maintained by OPEC. Oil surplus, together with the low demand, determined the oil barrel quotation to plummet and, as a result, that of the refined oil products as well.

The main internal factor that impacted the oil products prices in Q4 was the depreciation of the RON in relation to the USD, because most of the oil companies that are active in Romania have part of the transactions in the American currency.

The financial results of the distribution segment were positively influenced mostly by favorable international market environment and the cost optimization program.

As of December 2014, the Rompetrol Downstream's distribution segment contained 744 points of sale, including the network of owned stations, partner stations and mobile stations: expres, cuves and internal bases.



**rompetrol**

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## APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2014, AUDITED

	2014	2013	%	2014	2013	%
	USD	USD		RON	RON	
		<b>Restated*</b>				
Gross Revenues	5,625,298,483	4,899,808,638	15%	20,739,350,447	18,064,614,486	15%
Sales taxes and discounts	(1,276,249,503)	(988,900,985)	29%	(4,705,276,668)	(3,645,880,151)	29%
<b>Net revenues</b>	<b>4,349,048,980</b>	<b>3,910,907,653</b>	<b>11%</b>	<b>16,034,073,779</b>	<b>14,418,734,335</b>	<b>11%</b>
Cost of sales	(4,143,859,481)	(3,750,650,407)	10%	(15,277,581,136)	(13,827,897,921)	10%
<b>Gross margin</b>	<b>205,189,499</b>	<b>160,257,246</b>	<b>28%</b>	<b>756,492,643</b>	<b>590,836,414</b>	<b>28%</b>
Selling, general and administration	(195,168,104)	(219,726,314)	-11%	(719,545,765)	(810,086,973)	-11%
Other expenses, net	91,086	24,027,568	-100%	335,814	88,584,838	-100%
<b>EBIT</b>	<b>10,112,481</b>	<b>(35,441,500)</b>	<b>N/A</b>	<b>37,282,692</b>	<b>(130,665,721)</b>	<b>N/A</b>
Finance, net	(68,427,646)	(57,664,085)	19%	(252,279,045)	(212,595,949)	19%
Unrealized net foreign exchange (losses)/gains	573,417	(2,184,489)	N/A	2,114,072	(8,053,774)	N/A
Realized net foreign exchange (losses)/gains	6,863	(219,235)	N/A	25,303	(808,276)	N/A
<b>EBT</b>	<b>(57,734,885)</b>	<b>(95,509,309)</b>	<b>-40%</b>	<b>(212,856,978)</b>	<b>(352,123,720)</b>	<b>-40%</b>
Income tax	(710,361)	(98,883)	618%	(2,618,959)	(364,561)	618%
<b>Net result</b>	<b>(58,445,246)</b>	<b>(95,608,192)</b>	<b>-39%</b>	<b>(215,475,937)</b>	<b>(352,488,281)</b>	<b>-39%</b>
<b>EBITDA</b>	<b>86,392,660</b>	<b>28,965,159</b>	<b>198%</b>	<b>318,512,459</b>	<b>106,788,748</b>	<b>198%</b>



## APPENDIX 2 – CONSOLIDATED BALANCE SHEET DECEMBER 31, 2014, AUDITED

	December 31, 2014	December 31, 2013	%	December 31, 2014	December 31, 2013	%
	USD	Restated* USD		RON	RON	
<b>Assets</b>						
<b>Non-current assets</b>						
Intangible assets	7,471,842	8,035,381	-7%	27,547,184	29,624,841	-7%
Goodwill	82,871,706	82,871,706	0%	305,531,407	305,531,407	0%
Property, plant and equipment	1,127,681,929	1,161,647,701	-3%	4,157,537,738	4,282,762,742	-3%
Financial assets and other	410,266	1,202,723	-66%	1,512,568	4,434,196	-66%
<b>Total Non Current Assets</b>	<b>1,218,435,743</b>	<b>1,253,757,511</b>	<b>-3%</b>	<b>4,492,128,897</b>	<b>4,622,353,186</b>	<b>-3%</b>
<b>Current assets</b>						
Inventories	291,799,074	377,253,392	-23%	1,075,804,829	1,390,857,806	-23%
Trade and other receivables	272,344,381	320,937,214	-15%	1,004,079,260	1,183,231,320	-15%
Derivative financial Instruments	53,479	-		197,166	-	
Cash and cash equivalents	12,937,600	118,470,507	-89%	47,698,343	436,777,066	-89%
<b>Total current assets</b>	<b>577,134,534</b>	<b>816,661,113</b>	<b>-29%</b>	<b>2,127,779,598</b>	<b>3,010,866,192</b>	<b>-29%</b>
<b>Total assets</b>	<b>1,795,570,277</b>	<b>2,070,418,624</b>	<b>-13%</b>	<b>6,619,908,495</b>	<b>7,633,219,378</b>	<b>-13%</b>
<b>Equity and liabilities</b>						
<b>Total Equity</b>	<b>356,849,998</b>	<b>417,976,450</b>	<b>-15%</b>	<b>1,315,634,573</b>	<b>1,540,995,578</b>	<b>-15%</b>
<b>Non-current liabilities</b>						
Provision	72,490,851	73,246,042	-1%	267,259,269	270,043,508	-1%
Other	474,414	541,083	-12%	1,749,068	1,994,865	-12%
<b>Total non-current liabilities</b>	<b>72,965,265</b>	<b>73,787,125</b>	<b>-1%</b>	<b>269,008,337</b>	<b>272,038,373</b>	<b>-1%</b>
<b>Current Liabilities</b>						
Trade and other payables	879,380,583	1,044,036,705	-16%	3,242,100,342	3,849,154,517	-16%
Derivative financial instruments	479,575	63,466	656%	1,768,088	233,986	656%
Provisions - current portion	-	313,417	-100%	-	1,155,506	-100%
Short-term debt	485,894,856	534,241,461	-9%	1,791,397,155	1,969,641,418	-9%
<b>Total current liabilities</b>	<b>1,365,755,014</b>	<b>1,578,655,049</b>	<b>-13%</b>	<b>5,035,265,585</b>	<b>5,820,185,427</b>	<b>-13%</b>
<b>Total equity and liabilities</b>	<b>1,795,570,277</b>	<b>2,070,418,624</b>	<b>-13%</b>	<b>6,619,908,495</b>	<b>7,633,219,378</b>	<b>-13%</b>



## 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.

### Commodity price risk

The Group is exposed to changes in commodity prices both on the purchase of crude oil and the eventual sale of the finished oil products. The Group is an importer of crude oil and was influenced by the increase in average crude oil prices in 2013 and 2012. The Group exports almost half of its petroleum products on external markets, the rest being sold on the Romanian market. The prices for crude oil and petroleum products bought/sold are determined by reference to international quotations, while the price of petroleum products for domestic market are mainly market driven.

### 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 USD since crude oil imports and a significant part of petroleum products are principally denominated in US Dollars. In addition, certain assets and liabilities are denominated in foreign currencies, mainly US Dollars. 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 2013 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.

### 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.



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Member

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## Trade receivables

The retail operational segment is exposed to credit risk. Overdue customer receivables are regularly monitored.

## 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.

## 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, and following this, the Group started from January 2011 onwards to hedge commodities held by Rompetrol Rafinare.

## 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.



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**Note:**

**Restated\*** - a restatement of prior reported periods was determined by the voluntary accounting policy change for the capitalization of un-pumpable stock within Rompetrol Rafinare.

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 = 3.6868 as of 31 December 2014.

**PRESIDENT OF BOARD OF DIRECTORS**

**Azamat Zhangulov**



**MEMBER OF THE BOARD OF DIRECTORS**

**Alexandru Nicolcioiu**

**MEMBER OF THE BOARD OF DIRECTORS**

**Yedil Utekov**

**MEMBER OF THE BOARD OF DIRECTORS**

**Gabriel Dumitrascu**

**MEMBER OF THE BOARD OF DIRECTORS**

**Bogdan-Nicolae Badea**

**CHIEF FINANCIAL OFFICER**  
**Giani-Iulian Kacic**