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Report of the Board of Directors of Rompetrol Rafinare SA (the "Company")

REGARDING THE PATRIMONIAL SITUATION OF ROMPETROL RAFINARE S.A.

ACCORDING TO ART. 153[^]24 OF COMPANY LAW NO. 31/1990

Registered office: 215 Năvodari Blvd., Administrative Pavilion, Năvodari, Constanța County

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Sole registration code with the Trade Registry

Office attached to the Constanța Tribunal: 1860712

Trade Registry number: J13/534/1991



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TABLE OF CONTENTS

I. HISTORY	3
II. SHARE CAPITAL STRUCTURE	6
III. 2011-2015 OPERATIONAL ACHIEVEMENTS	7
IV. 2011-2015 BUSINESS ENVIRONMENT	11
V. 2011-2015 COMPANY'S FINANCIAL SITUATION	16
VI. LEGISLATIVE CONTEXT OF THE REPORT	21
VII. ANALYSIS OF THE CURRENT SITUATION OF THE PATRIMONY OF ROMPETROL RAFINARE S.A.	22
VIII. CONCLUSIONS OF THE REPORT REGARDING THE SITUATION OF THE COMPANY'S PATRIMONY	224



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I. HISTORY

Rompetrol Rafinare S.A., a company member of the KMG International Group, operates the Petromidia refinery (including the petrochemical sector) localized in Năvodari, Constanța County, and the Vega refinery in Ploiești, Prahova County.

The Petrochemical Complex from Midia Năvodari (the first name of ROMPETROL RAFINARE S.A.) was part of the big crude oil processing centers which appeared in the post-1975 period, through Decree no. 363/October 11, 1977 of the State Council of the Socialist Republic of Romania.

The Midia Petrochemical Complex was designed in the 1975 - 1977 period based on the Romanian high-performance refining technologies and based on certain foreign licenses: UOP, Mitsui, Snam Progetti, Heat Research.

The 1991 year meant for the Midia Petrochemical Plant the transformation into a joint-stock company, through the full takeover of the patrimony of the old company by the new company bearing the name of S.C. PETROMIDIA S.A., being established pursuant to Government Decision no. 1176/1990, issued based on Law no. 15/1990 regarding the reorganization of state economic units as autonomous administrations and trading companies.

On February 08, 2001, through Certificate of recorded amendments no. 50265, the cooptation in the Company of "THE ROMPETROL GROUP N.V." (former THE ROMPETROL GROUP B.V.) headquartered in SCHOUWBURGPLEIN 30 - 34, 3012CL, Rotterdam, the Netherlands, through the withdrawal from the company of the State Ownership Fund further to the sale of all the shares (25,258,810 shares) to the abovementioned company, according to share sale-purchase agreement no. 29/October 31, 2000, was registered with the Constanța Trade Registry Office.

Based on Resolution no. 1 of the Extraordinary General Assembly of Shareholders of February 26, 2001, on Addendum no. 21 to the Company's Articles of Incorporation, having writing bearing a certified date no. 611/March 15, 2001, and on Certificate of recorded amendments no. 50701 of March 21, 2001 from the Constanța Trade Registry Office, the company's name changed from "S.C. PETROMIDIA S.A." into "S.C. ROMPETROL RAFINARE-COMPLEXUL PETROMIDIA S.A." and its headquarters changed from National road 22B, Km 23, to County road 226, Km.23, Constanța (the change of the headquarters occurring further to Government Decision 540/2000 and its annexes, published in Official Gazette no. 338/July 20, 2000).



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Also, through resolution no. 50640 of March 18, 2003 of the Director of the Trade Registry Office attached to the Constanța Tribunal, based on the Resolution of the Extraordinary General Assembly of Shareholders of February 20, 2003 and the Addendum with writing bearing a certified date no. 1219/March 13, 2003, the registration in the registry of the amendment regarding the change of the company's name from "S.C. ROMPETROL RAFINARE – COMPLEXUL PETROMIDIA S.A." into „**ROMPETROL RAFINARE S.A.**” was ordered.

On August 27, 2007, a share purchase agreement was signed in Almaty, Kazakhstan, between KazMunayGaz ("KMG") and Rompetrol Holding S.A. (the holding company of the Rompetrol Group) for 75% of the shares of the Dutch company "The Rompetrol Group, N.V." (TRG), Rompetrol Holding continuing to hold the 25% of TRG shares.

On June 26, 2009 the purchase by KMG from Rompetrol Holding S.A. of the percentage of 25% from the shares of THE ROMPETROL GROUP N.V. (majority shareholder of S.C. Rompetrol Rafinare S.A.) was finalized, thus KMG becoming the sole shareholder of TRG.

According to the provisions of the Articles of Incorporation of Rompetrol Rafinare S.A. (hereinafter the "Company"), the main object of activity is represented by the „manufacturing of the products obtained from crude oil processing” (NACE code 1920). Other secondary objects of activity are detailed in the Company's Articles of Incorporation.

Rompetrol Rafinare S.A. holds the capacity as authorized warehouse keeper, according to the applicable tax legislation. Petromidia and Vega refineries are authorized as tax production warehouses, producing energetic products, in compliance with the tax rules regulating the activity related to the obtainment of energetic products.



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II. SHARE CAPITAL STRUCTURE

Starting with April 07, 2004, the Company's shares are traded on the regulated market operated by Bursa de Valori București S.A. ("BVB").

The shares of Rompetrol Rafinare are fully traded in the Standard category of the Bucharest Stock Exchange. On this report date, the total number of shares issued by Rompetrol Rafinare is 44,109,205,726 shares, representing a total value of the share capital of RON 4,410,920,572.6.

According to the latest Shareholders' Register issued by Depozitarul Central S.A. Bucharest with consolidation date September 30, 2016, the shareholders belonging to the KMG International Group hold 24,098,569,799 shares of RON 2,409,856,979.9, representing 54.6339% of the share capital.

The Romanian State shareholder, represented by the Ministry of Energy, Small and Medium-Sized Enterprises and Business Environment¹ according to the latest Shareholders' Register with consolidation date September 30, 2016 19,715,009,053 shares of RON 1,971,500,905.3 representing 44.6959% of the share capital

Also, on the same consolidation date, the rest of the shareholders (natural and legal persons) each holding less than 10% of the Company's capital, hold together 295,626,874 shares of RON 29,562,687.4, representing 0.6702% of the share capital.

¹ On this material drafting date, with the new denomination the Ministry of Energy



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III. 2011 -2015 OPERATIONAL ACHIEVEMENTS

In the 2011-2015 periods, the Company registered a series of major achievements as follows:

- **the Petromidia refinery produces exclusively Euro 5 fuels starting with the IInd semester of 2012, only processing sulphur crude oil, on the background of an increase of the raw material processing capacity to 5 million tons of crude oil/year**
- **historical record of the total raw materials processed in 2014 – over 5 million tones**
- **Increase of the outputs of white products from 84% in 2011 to 85.7 % in 2015**
- **the highest Diesel oil outputs (50%) and petrol reactor outputs (4.4%) obtained in history were attained in 2015**
- **the outputs for fuels (car gas, Diesel oil, Jet, LPG car fuel) reached the level of 75.5% in 2015, being the best in the refinery history**
- **Increase of the NELSON complexity index from 8.3 to 10.5 situating the Petromidia refinery on the 9th place at a European level**
- **the energetic efficiency index (EEI) of the Petromidia Refinery reached the level of 98.6 points, the best energetic performance registered until present**
- **the mechanical availability reached the historical maximum of 96.9% in 2015**
- **through the commissioning of the new installations from the “2010 investment project package”, Rompetrol Rafinare functioned, in 2015, at the maximum capacity of 15,150 tons of raw materials per day, by reference to the actually worked time**
- **alignment to the national and European quality and environment requirements especially as regards the emissions of sulphur oxides and azothes in the air, and the storage of dangerous waste.**



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The most important development and modernization investments finalized in the 2011-2015 period in Rompetrol Rafinare (Petromidia refinery) were:

- ✓ reconfiguration of the vacuum distillate hydrofining installation into a Diesel oil hydrofining installation (2011 year)
- ✓ construction of the new flare system (2011 year)
- ✓ construction of a new azoth installation (2011 year)
- ✓ compressor modernization (2011 year)
- ✓ modernization of the electrical equipment in the two refineries
- ✓ modernization of the oil product tanks and increase of their operating safety
- ✓ change of reactor from FCC unit and upgrade of the unit
- ✓ new hydrogen factory (commissioned in May 2012)
- ✓ new mild hydrocracking installation (commissioned in August 2012)
- ✓ new sulphur recovery and residual gas treatment installation (commissioned in October 2012)
- ✓ modernization of the coking installation (2013 year)
- ✓ mounting of burners to reduce azoth oxide emissions ("low nox") at the ovens in the Petromidia refinery (2013 year)
- ✓ automatic ramp black oil loading segregation (2013 year)
- ✓ other projects especially in the tank and logistics park area (2013 year)
- ✓ the 2015 refinery general overhaul project

On the background of the investments made by Rompetrol Rafinare SA (with the support of shareholder KMG International NV) in the modernization and increase of the processing capacity, corroborated with those for the development of the petrochemical sector, of the supply with crude oil and of the distribution of fuels internally but also in the region, the refinery situated on the Black Sea bank succeeded starting with 2014 in reaching historical records from an operational point of view. Simultaneously with the completion in 2012 of the ample program for the modernization and increase of the refining capacity, the Company's strategy pursued and shall continue to pursue the optimization of production processes, the reduction of processing costs and the increase of energetic efficiency.

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		2011	2012	2013	2014	2015
Processed raw materials	Kt	3,882	4,012	4,149	5,047	4,945
Production of gasoline	Kt	1,284	1,287	1,194	1,305	1,206
Production of diesel & jet fuel	Kt	1,563	1,713	2,031	2,630	2,683
Sales of fuels - domestic	Kt	1,441	1,536	1,623	1,738	1,662
Sales of fuels - export	Kt	1,225	1,307	1,443	1,990	2,038
Export – fuels	%	46%	46%	47%	53%	55%
Domestic – fuels	%	54%	54%	53%	47%	45%

2011 – 2015 operational indicators: Vega Refinery

		2011	2012	2013	2014	2015
Processed raw materials	Kt	337	305	241	309	329
Production of Nhexan	Kt	43	58	51	66	71
Production of solvents	Kt	24	31	23	31	34
Production of bitumen	Kt	53	45	46	61	81
Other products	Kt	200	170	124	146	139
TOTAL PRODUCTION	Kt	320	303	244	305	324



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2014 – 2015 operational indicators: Petrochemical activity

		2014	2015
Processed raw materials			
Propylene	kt	120	113
Ethylene	kt	61	62
Production			
Propane	Kt	27	25
PP	kt	90	82
LDPE	kt	59	60

Note: the petrochemical activity was integrated in Rompetrol Rafinare SA starting with 2014

Rompetrol Rafinare SA total investments (Petromidia, Vega Refinery and petrochemical sector)

		2011	2012	2013	2014	2015
Investments-	RON Million	623	376	651	83	420

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www.rompetrol.com**IV. 2011-2015 GLOBAL BUSINESS ENVIRONMENT**

		2011	2012	2013	2014	2015
Brent Dated crude oil	USD/bbl	111	112	109	99	52
Ural Med crude oil	USD/bbl	110	111	108	98	51
Brent-Ural differential	USD/bbl	1.7	0.9	0.4	1.0	0.9
Quotation of the 10 ppm FOB Med unleaded gasoline	USD/t	978	1,023	981	905	557
Quotation of the ULSD 10 ppm FOB Med Diesel oil	USD/t	957	969	931	850	494
RON/USD average exchange rate		3.05	3.47	3.33	3.35	4.01
RON/USD closing exchange rate		3.34	3.36	3.26	3.69	4.15
RON/EUR average exchange rate		4.24	4.46	4.42	4.44	4.44
RON/EUR closing exchange rate		4.32	4.43	4.48	4.48	4.52
USD/EUR parity		1.29	1.32	1.38	1.22	1.09
Inflation rate in Romania		3.1%	0.9%	1.6%	0.8%	-0.9%

The 2011 year was marked by a first semester with economic growth, followed by a second one in which the economic activity slowed down its rhythm. The decrease of the economic activity affected especially OECD member countries, constituting a real danger that they reenter recession while the Asian countries which are not OECD members



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succeeded a relatively high economic growth even if below the previous levels. The latest economic studies indicated that parts of Europe had already entered recession to the end of 2011, after the registration of two quarters of negative increase.

The poor condition of economy affected the oil market, leading to the substantial decrease of demand. However, the decrease of prices was limited due to geopolitical risk factors, such as: the Arabian Spring and the sanctions imposed to Iran. The values of the quotations of the Brent or Ural crude oil reached in 2011 record values, and the annual averages were approximately 40% above the previous calendar year around \$110/bbl.

The crude oil high price environment combined with the decrease of demand for products in the second half of the year increased the market pressure exercised on refining margins. The European and US Atlantic Coast refiners feel such pressure the most as these regional markets are most affected by the financial crisis and the increasing competition from the more aggressive refiners from other geographic areas. In this respect, the increase of gas and distillate exports in the US Gulf area attests to a change of the image of the commercial activity in the Atlantic Basin.

2011 was the most critical year for the refining industry in terms of profitability. The refining overcapacity existing at a European and world level combined with the decrease of refining margins led to a real collapse for some players in the refining industry, which resulted in a restraint of the processing capacities to 510 kb/d at the end of 2011. In this context, the closing starting with 2011 of the 3 refineries belonging to Petroplus is worth mentioning.

In 2012 the world economy registered an increase of 2.3% as compared to 2011 when the increase was 3% as compared to the previous year. The European Union entered recession starting with the end of 2011, which situation did not change in 2012. The Gross Domestic Product at EU level decreased by 0.6% in 2012, and the Central European Bank adopted an interventionist position to stabilize the bond market. The quotations for the Brent crude oil registered an average of approximately \$ 111.67/bbl with only \$ 0.41/bbl above the 2011 average. Although the annual average does not indicate it, the crude oil quotations registered significant fluctuations over 2012, both in terms of increase and decrease. The ascendant movement at the beginning of the year, when an excess of the \$120/bbl threshold was registered was caused by the concern regarding a possible escalation of the Iran situation leading to the closing of the Hormuz strait. As it became more and more obvious that the international market can function coherently also in absence of the oil of Iranian origin, and the economic situation in Europe got worse, the quotations decreased by approximately \$40/bbl down to a value of approximately \$90/bbl.



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However, the efforts made by the central banks and the governments in the entire world succeeded in keeping the situation under control, and consequently the quotations started to go up and stabilized around \$110/bbl for the Brent crude oil. This was also the threshold around which this crude oil type remained for the rest of the period, sustained by the fundamental factors from the market and the high level of geo-political risk.

In the 2013 year, the annual global economic growth for 2013 was 2.2% as compared to 2012, slightly below that of the previous year (2.5%). The gross domestic product at a EU level registered a modest increase (0.1%), as compared to the contraction reported in 2012. To the end of 2013, the European Union succeeded in getting out of recession and should be able to sustain a slow economic recovery. The commitment assumed by the Central European Bank (CEB) to ensure sufficient liquidities on the market also led to the stabilization of the peripheral area of the unique currency. The annual average of the quotation for the Brent crude oil registered \$108.66/bbl, a decrease by approximately \$3/bbl as compared to the 2012 average. Although the premium, due to geopolitical insecurity, continued to play a role in price formation, the quotation fluctuations were less acute. The maximum of the quotation for the Brent crude oil did no longer exceed the threshold of \$120/bbl as in 2012, further to the increase of the USA production and the decrease of demand in OECD countries. The maximum value registered in February 2013 was more a consequence of the increase of the social unrest in the Middle East and Northern Africa area and of the excessively positive perception related to the increase of demand, followed by a recovery based on the soothing influence of the fundamental market factors in the Ist semester. In the IInd semester crude oil prices stabilized, and the registered increases were a consequence of the increasing demand or certain availability problems – whether at a perception level or real. A second maximum of quotations in August resulted further to the speculations regarding an armed attack of the USA in Syria and the interruption of production in Libya further to the takeover of control over crude oil production facilities by insurgents.

The value of the refining margin for the Mediterranean area significantly deteriorated in 2013 as compared to 2012. The average degree of use of the refineries in the area decreased by 2.5% as compared to the previous year, especially because of the low values in the IInd semester. In the IInd quarter, an increasing demand of gas import to the Middle East was registered, simultaneously with the maintenance period of refineries having a positive impact on the margin. Subsequently, to the middle of the 2013 year, the problems in the Mediterranean area came back and the refining margin was negatively influenced. The increase of pressure due to the competition on this market segment both internally and for export led to the decrease of the margin and the decrease of the rate of average use of the refineries in the area by 7% as compared to the previous calendar year. The



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start of production at the new desulphurization capacity in Russia led to the increase of exports of Euro5 diesel to Europe, which replaced volumes from the local production being more competitive. At the same time, the advantageous price for refineries of the local crude oil from the USA led to the maintenance at high quotas of the refining rate in the last months of 2013 and implicitly to the increase of exports to Europe, Central and South America and Western Africa – in direct competition with the similar products in European refineries, simultaneously with the decrease of gas imports from the European area to the USA. All these elements together led to the decrease of the difference between gas and crude oil with a direct negative impact on the refining margin.

The 2014 year can be looked at in two distinct manners in terms of the international gas market. The year started with a relatively low value of the difference between the gas and crude oil quotation, but it increased significantly in the Ist quarter due to the decreasing gas production in the Mediterranean area. Starting with the IInd quarter, the demand increased for the summer season and thus contributed to the increase of the difference from the crude oil quotation until the middle of July when the maximum value was reached (almost USD 225 /mt). After this time, the trend reversal and a decrease of the value of the difference between the gas and crude oil quotation began further to the increase of production in USA refineries from the Atlantic Coast to benefit from the accentuated decrease of crude oil quotations.

The annual average in 2014, for the Brent crude oil, was at a value of USD 99.34 /bbl with 8.6% below the 2013 average. In the first semester the variation of quotations was characterized by low volatility, the average being around USD 109 /bbl, very close to the previous year average. The annual maximum was reached in June (USD 115 /bbl), before a constant decrease for the rest of the period begins.

The performance of the refining margin for the refineries in the Mediterranean area improved significantly as compared to the average of the 2013 year (average USD 1.88 /bbl, USD 0.70 /bbl above the previous year). The different structure of the 2 semesters also reflected in the margin value: the first half of the year was marked by pressures, while the second half was characterized by the significant decrease of quotations and associated variable costs, with a positive impact on the margin. Besides the decrease of quotations, the refiners in the Mediterranean area also benefited from the decrease of the differences between the quotations of non-sulphur and sulphur crude oils.



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The 2015 year was a calendar year with special performances in terms of the difference between the quotations of gas and crude oil in the Mediterranean area. The maximum value was reached at the middle of July during the holiday season in the Northern hemisphere, but the registered level was high all the year. These performances were sustained by the decrease of crude oil quotations but especially by the special increase of demand in USA, Africa and Middle East enabling the increase of exports to such destinations. Thus, the situation remained balanced in the Mediterranean area despite the increase of the volumes of processed crude oil.

The fundamental factor, mainly responsible for the significant decrease of crude oil quotations was the significant increase of the crude oil production in OPEC countries (especially the Saudi Arabia and Iraq), and also from countries outside OPEC (USA, Russia and even Europe and Asia) as compared to the previous year.

As regards the evolution of the difference between the quotation of Diesel oil and the quotation of crude oil in the Mediterranean area, it was for a big part of 2015 at the lowest limit of the historical evolution, with particularly low values especially to the end of the year. Although constant, the increase of demand did not keep up with the additional volumes produced as an answer of refiners to the performance of the products in the gas group. This *de facto* condition combined with the increase of exports from Russia to countries located East from the Suez Channel led to stock increase and increased pressure on the performances of the average distillate group in the Mediterranean area.

The evolution of the foreign currency market was focused in 2015 mainly around the following events: the crisis in Greece, the expectations of the Federal Reserve System of the United States of America as regards the increase of interest rates, the poor macroeconomic data in China. EUR started to depreciate by reference to USD starting with 2014, when ECB continued the quantitative relaxation program in order to maintain inflation under control and reduce the increased EUR liquidity on the market. During this program, interest rates decreased reaching negative thresholds. In addition, the European currency was affected by the possible exit of Greece from the Euro area.

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V. 2011-2015 COMPANY'S FINANCIAL SITUATION

In the 2011-2015 periods, according to the financial statements audited and drafted according to Order of the Minister of Public Finances 1286/2012, the Company registered the following indicators:

1. Indicators from the profit and loss account (RON)

	2011	2012	2013	2014	2015
Operating income	10,355,875,579	12,623,179,868	11,626,863,591	13,360,577,794	9,636,295,232
Operating expenses	10,679,974,712	12,799,583,288	11,845,347,485	13,511,112,951	9,232,085,223
Operating profit+ /loss ()	(324,099,133)	(176,403,420)	(218,483,894)	(150,535,157)	404,210,009
Financial income	1,440,414,600	1,211,020,116	197,113,948	85,042,876	167,075,617
Financial expenses	1,829,574,468	1,332,270,196	202,656,053	1,009,369,698	715,031,713
Financial profit+ /loss ()	(389,159,868)	(121,250,080)	(5,542,105)	(924,326,822)	(547,956,096)
Total income	11,796,290,179	13,834,199,984	11,823,977,539	13,445,620,670	9,803,370,849
Total expenses	12,509,549,180	14,131,853,484	12,048,003,538	14,520,482,649	9,947,116,936
Gross Profit+ /loss ()	(713,259,001)	(297,653,500)	(224,025,999)	(1,074,861,979)	(143,746,087)
Deferred tax				-	228,038,083
Net profit (+) or loss ()	(713,259,001)	(297,653,500)	(224,025,999)	(1,074,861,979)	84,291,996

Of which,

RON	2011	2012	2013	2014	2015
Interest expenses, net	118,556,259	63,322,161	24,928,835	32,622,099	55,841,089
Expenses (income) related to exchange rate differences, net	224,806,997	2,523,236	(97,925,156)	438,788,002	423,658,187

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2. Balance sheet indicators (RON)

Net asset evolution (RON)	2011	2012	2013	2014	2015
Share capital	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
of which paid In	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
Inflation related to the share capital	5,734,750,095	5,734,750,095	5,734,750,095		
Capital premiums	232,637,107	232,637,107	232,637,107	232,637,107	232,637,107
Revaluation reserves	-	-	-	-	-
Reserves	19,309,342	2,677,987,912	3,177,546,654	3,166,150,587	3,172,596,294
Retained earnings profit+/-loss ()	(9,901,649,343)	(10,614,908,344)	(11,068,768,151)	(5,558,044,055)	(6,632,906,034)
Profit+/-loss () of the year	(713,259,001)	(297,653,500)	(224,025,999)	(1,074,861,979)	84,291,996
Profit distribution	-	-	-	-	(4,214,600)
Equity	-217,291,227	2,143,733,843	2,263,060,279	1,176,802,233	1,263,325,336
Total assets	6,479,947,706	7,366,791,610	7,295,001,766	6,261,990,681	6,610,932,792
Total debts (including provisions)	6,697,238,933	5,223,057,767	5,031,941,487	5,085,188,448	5,347,607,456
Net assets	-217,291,227	2,143,733,843	2,263,060,279	1,176,802,233	1,263,325,336

The company's operational and financial results in 2011 were influenced both by the International evolutions of the crude oil and fuel quotations and by a series of internal macroeconomic factors, such as the depreciation of the national currency.

On the background of an unfavorable refining market context, characterized by a surplus of the refining capacities, it was generated a low level of the refining margin, insufficient to cover the company's financing costs and the exchange rate difference expenses.

The company incurred operational losses due especially to the distorted conditions on the crude oil and oil product market, in the sense that the evolution of oil product prices did not have the same trend as the crude oil price. Thus, for instance, although the price of the Ural crude oil decreased in 2013 as compared to 2012 by 2% the product quotations decreasing by 4% both for Diesel oil and for gasoline.



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In 2012, the company's financial results were influenced by a series of extraordinary events with a non-repetitive nature, such as the registration of certain provisions for environmental obligations for the Vega refinery (RON 173 million), provisions for tax disputes (RON 133.5 million), which were partly compensated with the diminishment of the depreciation value (RON 100 million) further to the revaluation of the life duration of fixed assets.

The company finalized in 2012 the program for the modernization and development of the Petromidia refinery named the "2010 Investment package", totally amounting to approximately USD 380 million, whose main effect was the increase of the processing capacity from 3.8 million tons of crude oil /year to over 5 million tons of crude oil /year.

The other positive effects of the investment package are:

- Possibility to fully obtain fuels with EURO5 norms
- Possibility to fully use sulphur crude oils
- Increase of higher product outputs (Diesel oil, kerosene)

The refining capacity increase program enabled the consolidation and development of the presence of Rompetrol Rafinare in the Central European and Eastern region in Romania, Bulgaria, Republic of Moldova, Ukraine and Georgia. Initiated in 2006, the package aimed at achieving nine major projects, constructing five new installations (gentle hydrocracking installation, hydrogen producing installation, sulphur recovery installation, azoth production installation and a new flare system) as well as modernizing/extending other four already existing ones (gas desulphurization installation, transformation of the vacuum distillate hydrofining installation into a Diesel oil hydrofining installation, catalytic cracking installation, sulphur recovery installation). In the period immediately following the commissioning of the investment package, the company reached from an operational point of view historical records in the context of an unfavorable economic environment.

The company's financial results were significantly influenced by the evolution of the refining margin, which considerably diminished in 2013, being negatively influenced by the unfavorable market conditions, further to the decrease of the international quotations of finished oil products (Gasoline, Diesel oil) on average by 4%, as compared to a decrease of only 3% of the quotation of the Brent crude oil.

In the 2014-2015 periods, the refining margins improved but the company's results were negatively impacted by the volatility of the foreign exchange market, the company registering significant losses from exchange rate differences. In addition, in 2014, value adjustments regarding the equity interests held in Rompetrol Petrochemicals SRL of approximately RON 376 million were registered in the financial statements, with a negative significant impact in the net result of the year, partly compensated with the positive impact



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resulted from the reversal of certain provisions of a tax nature (RON 21.1 million), further to the receipt of favorable resolutions in case of these tax disputes.

In the 2015 year, the Diesel oil output reached the 49.99% threshold (in 2014 it was 48.8%), the highest level ever reached in the refinery history, 1.19% higher than in 2014, the quantity of produced Diesel oil being of 2,474 million tones. The output of white products (valuable products), including components, by reference to the total processed raw material, as a percentage from the total raw material was 85.7%, the second year in a row when the record level was reached, as compared to 85.69% in 2014.

The 2015 year is the year in which the company registers positive financial results (net profit of approximately RON 84 million).

In the 2011-2015 period, Rompetrol Rafinare was an important contributor to the Romanian state budget, the local budgets and the special budgets paying taxes and duties of RON 24,473 million.

The company continued in the 2011-2015 periods the production process optimization programs targeting especially the reduction of operation costs (of which, the reduction of thermal and electrical energy consumptions is the most significant).

Thus, the net negative cumulated result obtained by the company in the 2011-2015 periods was determined by:

- the difficult context of the refining industry which generated low refining margins further to the evolutions of crude oil and oil product quotations
- series of internal macroeconomic factors, such as the depreciation of the national currency (the negative exchange rate differences – on the background of the depreciation of the national currency as compared to the American currency - constituted 44% from the total net negative result of the analysis period)
- other extraordinary events, such as the registration of certain provisions for financial interests (negative impact of approximately 17% in the total net negative result of the analysis period)

According to the unaudited financial statements in June 2016, the positive trend of financial results started with 2015 continues, for the first 6 months of the 2016 year the company registering a net profit of approx. RON 143 million.

The strategy for the 2016-2020 years mainly aims at maximizing the existing refining capacity, while implementing projects for optimizing production costs and continuing



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capital maintenance and development investments. In order to improve the financial performance, the following measures were taken:

- to render more efficient the operational processes in order to decrease processing costs especially on the background of implementing Internal analysis projects (Delphin 1)
- to improve the product mixture in order to increase the weight of the products with a higher refinery margin.



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VI. LEGISLATIVE CONTEXT OF THE REPORT

According to the provisions of Art. 153²⁴ of Company Law no. 31/1990, as republished, as subsequently amended, if the Board of Directors establishes that, further to certain losses, established through the annual financial statements approved according to law, the company's net assets, determined as a difference between its total assets and its total debts, were diminished to less than half the value of the subscribed share capital, it shall immediately call the Extraordinary General Assembly to decide if the Company must be dissolved.

Para. 3 Art. 153²⁴ of Law no. 31/1990 mentions the obligation of the Board of Directors to submit to the Extraordinary General Assembly met under the conditions of para. (1) a report regarding the Company's patrimonial situation, accompanied by notes of censors or, as the case may be, of internal auditors. This report must be submitted to the Company's headquarters at least one week before the general assembly date, so that it may be consulted by any interested shareholder. In the Extraordinary General Assembly, the Board of Directors shall inform the shareholders of any relevant facts occurred after the drafting of the written report.

Please find below the provisions of paras. 4 and 5 of Art. 153²⁴ of Law no. 31/1990:

"(4) If the extraordinary general assembly does not decide to dissolve the company, then the company is compelled to proceed, by the closing of the financial year after the year in which the losses were established, at the latest, and subject to the provisions of Art. 10, to the share capital decrease by a quantum at least equal to that of the losses which could not be covered from reserves, if in this interval the company's net assets were not re-established up to the level of a value at least equal to half the share capital.

(5) In case the extraordinary general assembly does not meet according to para. (1) or if the extraordinary general assembly could not validly deliberate on the second call, either, any interested person may address the court to request the company's dissolution. The dissolution may also be requested if the obligation imposed to the company according to para. (4) is not observed. In any of these cases, the court may grant the company a term which may not exceed 6 months to regularize the situation. The company shall not be dissolved if the re-establishment of the net assets up to the level of a value at least equal to half the share capital takes place until the time when the dissolution court decision remains final."



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VII. ANALYSIS OF THE CURRENT SITUATION OF THE PATRIMONY OF ROMPETROL RAFINARE S.A.

According to the latest audited financial statements of ROMPETROL RAFINARE S.A. (the "Company"), related to the 2015 financial year, approved by Resolution of the Ordinary General Assembly of the Company no. 1/2016 of April 28, 2016, the company's net assets amounted to RON 1,263,325,336, and the subscribed and paid in capital amounted to RON 4,410,920,572.6, resulting in a registered deficit (down to the minimum value admitted by law for the net assets) amounting to RON 942,134,951.

On June 30, 2016, according to the unaudited financial figures achieved for the first 6 months of 2016, published according to the legal provisions on August 12, 2016 by the Bucharest Stock Exchange ("BSE"), the Financial Supervision Authority ("FSA") and on the Company's web site www.rompetrol-rafinare.ro in the Relationships with Investors section, the Financial results and reporting/Partial reports and presentations subsection, the Company's net assets amounted to RON 1,406,191,981, the registered deficit decreasing to the value of RON 799,268,306.

The Company's Board of Directors assessed on a constant basis the current operational and financial situation and deems that the necessary measures were taken to continue the Company's activity under optimum conditions. In addition, the assessment considered the stability of the raw material (crude oil) supply activity and the fact that financing activity had no significant changes. It was considered that that there is no current direct impact over the operational activity coming from the freezing orders imposed by DIICOT on the company's assets during legal procedures from May 2016. The impact of such freezing orders on medium and long term is difficult to be estimated.

Further to the approval for last audited financial statements (related to 2015 year) and acknowledgement of gap between net assets and half of share capital, the board of directors has initiated internal assessments related to possible solutions to redress level of net assets. Among the main possible solutions, there were considered decrease of share capital and respective increase of share capital. From the preliminary assessment done over option to decrease level of share capital it has resulted possible legal constraints (existence of seizure imposed by DIICOT on the shares owned by KMG International NV in Rompetrol Rafinare SA) which needed additional legal assessment. For the option of increase of share capital it was tried to identify potential available sources for contribution. Also, it was done a preliminary internal assessment over the projections of financial results for the period of next 5 years to overtake the possibility of redressing the net assets based



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on future financial results. Finalization of assessment of all options to redress the level of net assets and identify the optimum solution follows to be done in the immediate next period.

Considering the obtainment of positive financial results in 2015 and in the first 6 months of 2016, which automatically leads to the reduction of the unbalance between the share capital and the net assets, the Company's Board of Directors deems that based on the operational assumptions combined with other specific measures which are to be analyzed (share capital decrease, share capital increase, revaluation of fixed assets, others), the situation of the net assets versus the share capital could be remedied.

Evolution of the net assets in correlation to the Company's share capital:

	2011	2012	2013	2014	2015
Net assets (RON)	-217,291,227	2,143,733,843	2,263,060,279	1,176,802,233	1,263,325,336
Share capital (RON)	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
- of which the paid in share capital (RON)	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
- of which the unpaid share capital (RON)	-	-	-	-	-
1/2 of the share capital (RON)	2,205,460,287	2,205,460,287	2,205,460,287	2,205,460,287	2,205,460,287

On December 31, 2014 and December 31, 2015, based on the Company's audited financial statements, it was established that the net assets (RON 1,176,802,233 for 2014 year and 1,263,325,336 for 2015 year) were below half the value of the subscribed share capital (RON 4,410,920,572.6 for 2014 and 2015 year). The main cause of this situation is the registration of negative financial results in the previous periods (generated by an unfavorable context of the refining industry, negative exchange rate differences on the background of the depreciation of the national currency by reference to the American currency, other extraordinary items like provisions - especially for financial interests).

Please note that the 2011- 2015 period was deemed to be a sufficient analysis period to describe the context of the current activity of the company. Strictly referring to the net assets versus share capital ratio, it is important to keep in mind that in the



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structure of the company's equity in 2011, the cumulated retained earnings are negative, which means a negative impact in the net assets also deriving from the period before the 2011 year.

The measures that may be taken to remedy the ratio between the net assets and the share capital are the following:

- The increase of the Company's share capital through cash or in-kind contributions from the shareholders, in-kind contributions contributing to the increase of the Company's net assets up to the limit of meeting the legal condition; the cash contributions can be made inclusively through the conversion into shares of certain receivables registered by the shareholders against the company;
- The decrease of the Company's share capital by the value of the losses cumulated in the previous years and which could not be covered from the reserves;
- The revaluation of the Company's fixed assets, with direct impact in the increase of the Company's net assets;
- Other possible measures for remedying the ratio between the share capital and the net assets can be implemented either individually or in a combined manner, until the compliance of the ratio with the parameters requested by the legal text

According to para. 4 of Art. 153²⁴ of Law no. 31/1990 quoted above, the term provided by law for regulating the ratio between the net assets and the share capital of the Company is the end of the following year in which such unbalance of the ratio was found out.

Proposing and supporting the continuation of the Company's activity under the abovementioned conditions, the Board of Directors requests and authorizes the executive management of the Company to closely monitor the evolution of this ratio, to take and propose the taking of the necessary measures so that the ratio is within the limits provided by law.



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VIII. CONCLUSIONS OF THE REPORT REGARDING THE SITUATION OF THE COMPANY'S PATRIMONY

In this Report, the company's Board of Directors analyzed the Company's patrimonial situation and took note of the failure to comply with the legal ratio regarding the value of the net assets as compared to the value of the share capital (according to Art. 153²⁴ of Law no. 31/1990).

Foreseeing the registration by the Company of certain positive financial results (according to the positive trend started in 2015), supported by the benefits of the implementation of the Investment package finalized in 2012 and considering the constant and sustained support in this respect from significant shareholder KMG International N.V., the Board of Directors estimates the significant improvement of the company's operational and financial results concomitantly with the application of other possible specific measures to redress the net assets and consequently proposes the adoption by the Extraordinary General Assembly of Shareholders of the Decision formally confirming the continuation of the Company's activity.

Date: November 7th 2016

Board of Directors of Rompetrol Rafinare SA

President

Azamat ZHANGULOV

Member

Catalin DUMITRU

Member/General Manager

Yedil UTEKOV

Member

Marius MITRUS

Member

Mihai-Liviu MIHALACHE

Drafted,

Economic Manager

Vasile- Gabriel MANOLE

*Cu menajul ca nu
eu sunt responsabil de
rezultatele financiare ale
societati, sperand ca
amintit sub ca ordinul*

Manole