



## ANNUAL REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE ON THE ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE FINANCIAL YEAR 2016

2016 figures include consolidated financial statements in accordance with International Financial Reporting Standards („IFRS”). Consolidated financial statements of Rompetrol Rafinare Group include the results of the parent company Rompetrol Rafinare and its subsidiaries Rompetrol Petrochemicals S.R.L., Rom Oil S.A., Rompetrol Downstream S.R.L., Rompetrol Quality Control S.R.L and Rompetrol Logistics S.R.L. (with its subsidiary Rompetrol Gas S.R.L.).

### COMPANY HISTORY

Rompetrol Rafinare 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, KMG International NV became the main shareholder. In 2003, by Decision no. 50640 of Trade Registry Directorate, based on the General Shareholders’ Meeting as of February 20, 2003, the company was renamed S.C. Rompetrol Rafinare S.A. The company processes a variety of crude oils with different content of sulfur, reaching an average percent of 1.26% sulfur. The crude oil feeding (more than 98%) is carried out mainly through the marine terminal built by the KMG International Group, close to Petromidia Refinery, and the rest is carried out through Oil Terminal facilities in Constanta port. The products obtained can be delivered by railway, road and by sea.

At the end of 2008 the company also finalized the operations for the 350% expansion of the transit capacity for finished products through Midia harbor, by building two new loading and offloading berths, Berth 9B and Berth 9C.

In 2012 Rompetrol Rafinare SA completed the extensive process of modernization that allowed expanding refining capacity and efficient production and focus on the products required by the market.

The investments made by KMG International Group and KazMunayGas in modernizing and increasing processing capacity, in conjunction with the development of the petrochemical industry, the supply of crude oil and fuel distribution domestically but also in the region, the refinery located on the Black Sea, succeeded 2016 to maintain historical records on the operational side recorded since 2014. With the completion of the extensive modernization program and increase refining capacity, the Company's strategy and ambition to follow and will continue to pursue optimization of production processes, reduce processing costs and increasing energy efficiency.

The improved operating results and achievement in 2016 by the Petromidia refinery of historical records were sustained by completion in 2012 of the extensive modernization program and increase in the processing capacity to 5 million tons per year, and technological work carried out both in turnaround during March-April 2013 and in also in general turnaround (conducted in October 2015) that takes place every five years.

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 2016.



Since April 7, 2004, the Company's shares are traded on the regulated market operated by the Bucharest Stock Exchange SA ("BVB").

The Company's shares are traded on BVB Standard category. On 31.12.2016, the total number of shares issued by the Issuer is 44,109,205,726, representing a total share capital of 4,410,920,572.6 lei. The Company's shares are common, nominative, dematerialized, and the shareholder's register is held by the DEPOZITARUL CENTRAL S.A. Bucuresti.

According to the law and the Articles of Incorporation, each share held entitles the holders to one vote at the General Meeting of Shareholders, the right to vote and to be elected in the management of a company, the right to participate in the distribution of benefits and social asset at the dissolution of the company and other rights established by law. Ownership and any other actions of its attributes are given under capital market law. Regarding the shares, the transfer is not restricted, shall be in accordance with applicable laws and the Articles of Association of the Company.

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

The Rompetrol Rafinare shares	2014	2015	2016
Number of shares	44,109,205,726	44,109,205,726	44,109,205,726
Stock exchange capitalization, mil. lei <sup>1</sup>	1,856.998	2,170.173	2,514.225
Stock exchange capitalization, mil. Euro <sup>2</sup>	414.194	479.225	553.66
Maximum price, lei <sup>3</sup>	0.052	0.0492	0.0598
Minimum price, lei <sup>4</sup>	0.04	0.0344	0.04
Price at the end of the year, lei	0.0415	0.0492	0.057

<sup>1</sup> Calculated on the basis of the price of the share on the last transaction day of the year under consideration, respectively on December 30<sup>th</sup>, 2016;

<sup>2</sup> Calculated at the euro exchange rate (4.54115) of the last trading session of the year under consideration, respectively December 30<sup>th</sup>, 2016

<sup>3</sup> Recorded on December 16<sup>th</sup>, 2016.

<sup>4</sup> Recorded on May 11<sup>th</sup> and 23<sup>rd</sup>, 2016.

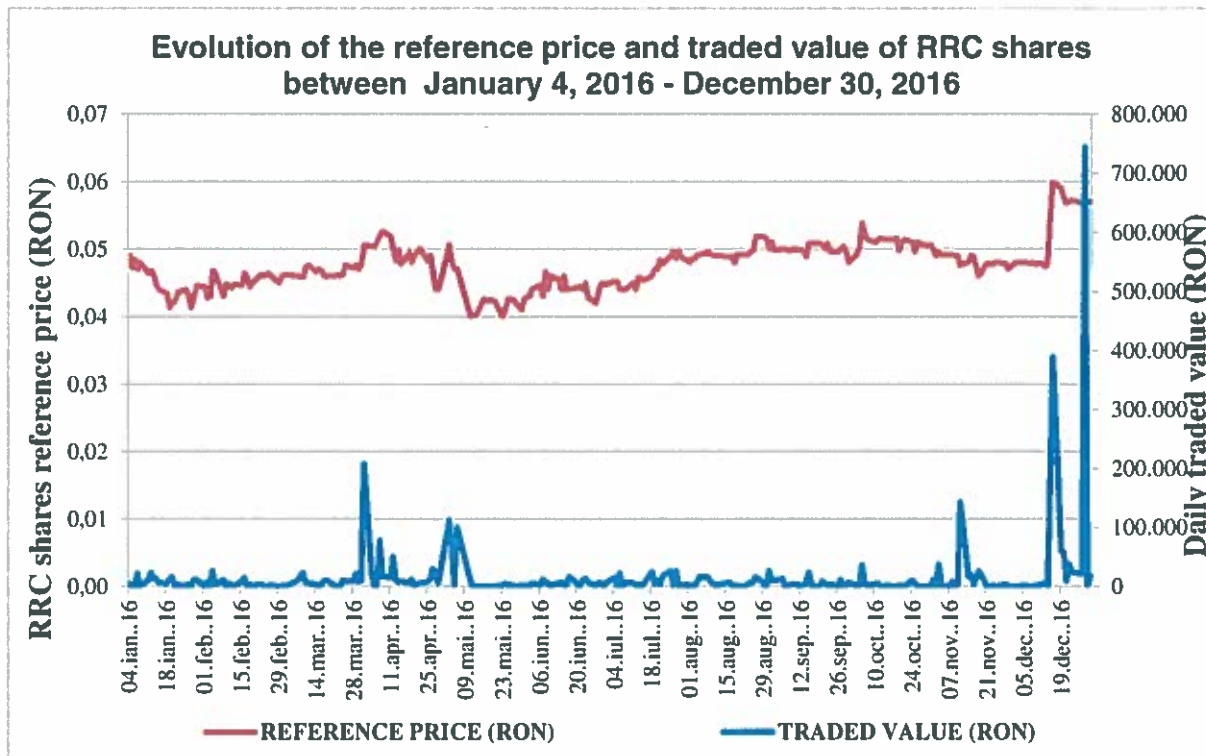


**rompetrol**

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Weighted Average Price (WAP) of RRC shares during 2016 = 0.051179064 lei/share;

The volume traded in December represents 42.21% of the entire volume traded in 2016 (total traded volume in 2016 = 3,741,079.28 lei)

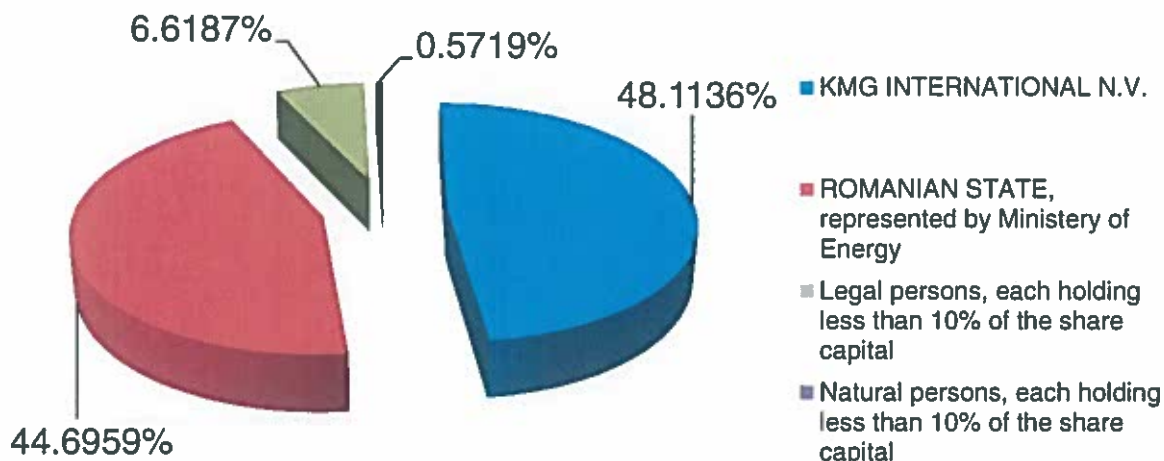
### Rompetrol Rafinare Shareholders Structure

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, 2016, the structure of the Company's significant shareholders is presented in the following graph:



## The structure consolidated by the Depozitarul Central S.A. on 31.12.2016



### Company's own shares

At 31.12.2016, ROMPETROL RAFINARE S.A. held a number of own shares of 6,134,701 having a nominal value of RON 0.10 per share and a total value of RON 613,470.10, which represents 0.0139% of Company's share capital.

The Company did not trade (by acquiring or selling) its own shares during 2016.

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

In 2016, the subsidiaries of society have not held shares issued by Rompetrol Rafinare.

### The financial calendar proposed for the year 2017

Financial Calendar	Date
<i>Presentation of the preliminary, unaudited, individual and consolidated results of the year 2016 and fourth Quarter of 2016</i>	<i>February 15<sup>th</sup>, 2017</i>
<i>Ordinary General Assembly of Shareholders, to approve the annual financial results of year 2016</i>	<i>April 27<sup>th</sup> / April 28<sup>th</sup>, 2017</i>
<i>Publication of the 2016 Annual Report (i.e. publication of the financial results of 2016)</i>	<i>April 28<sup>th</sup>, 2017</i>
<i>Presentation of the results recorded during the first quarter of 2017</i>	<i>May 12<sup>th</sup>, 2017</i>
<i>Presentation of the results recorded during the first semester and second quarter of 2017</i>	<i>August 11<sup>th</sup>, 2017</i>
<i>Presentation of the results recorded during the third quarter of 2016 and between January – September 2017</i>	<i>November 14<sup>th</sup>, 2017</i>



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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

The strategy for the next years is a mixture of cost optimization projects for production processes and improvement of production yields. The main objective for the next year is the extension distribution operations in countries around the Black Sea, to benefit from increased vertical integration with refining operations for improved financial performance through the following:

- ✓ Strengthen The Group's retail network presence;
- ✓ Cost reduction initiatives in refining with the purpose to streamline processes and increase profitability;
- ✓ Increasing the competitiveness and the utilization parameters of the refineries, reducing the processing unit costs and increase the energy consumption efficiency for a better Refining performance.

The management believes that the developments mentioned above will result in an enhancement of the Group's ability to support its continuing operations

Based on the Group's plans for 2017 and other matters mentioned above, Group Management considers that the preparation of the financial statements on a going concern basis is appropriate.

## OUTLOOK FOR 2017

Market environment: For 2017 the Group budgeted a crude average price of 45 \$/bbl. From computation of the difference between main products quotations and Urals quotation, weighted at 2017 approved budget production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur) results a Market refining margin valued at 43.7 \$/t.

In 2017, it is expected a positive growth trend in terms of gasoline and diesel demand for Group's key markets of 1.76% (annual average for Romania and Near Abroad).

Group operations: The Group will continue to carry on the operational initiatives which were identified and put in motion starting 2016, such as: Refining planning and production optimization, energy efficiency and organizational effectiveness, increase of non-fuel profitability, new market trading profitability increase.

These operational initiatives have as main purpose the improvement of the operational results with minimum investment cost.

From the production perspective, in 2017, the Group has the following expectations:

- ✓ Total feedstock planned to be processed in 2017 estimated at 5.6 million tones or 15.92 kt/day vs. 5.41 mil tones processed in 2016.
- ✓ White products yield of 85.8%, ~+0.7% above actual 2016 mainly from different structure of feedstock (mainly additional SRGO considered).
- ✓ Decrease in processing cost by 1.16 \$/ton compared with 2016, mainly from lower utilities expenses as a result of continuous improvement projects of energy efficiency.

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected reach higher levels than in 2016.



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[www.rompetrol.com](http://www.rompetrol.com)**HIGHLIGHTS – CONSOLIDATED**

Financial	2016	2015	%	2016	2015	%
	USD	USD		RON	RON	
Gross Revenues	3,566,449,386	3,836,585,175	-7%	15,347,501,642	16,509,976,982	-7%
Net Revenues	2,440,510,028	2,724,720,694	-10%	10,502,246,803	11,725,290,561	-10%
EBITDA	186,548,315	112,939,083	65%	802,773,364	486,010,756	65%
EBITDA margin	7.6%	4.1%		7.6%	4.1%	
EBIT	92,457,898	58,955,154	57%	397,874,074	253,701,712	57%
Net profit / (loss)	57,145,367	64,655,536	-12%	245,913,659	278,232,165	-12%
Net Profit / (loss) margin	2.3%	2.4%		2.3%	2.4%	

Rompetrol Rafinare Constanta (RRC) gross revenues reached USD 3.566 billion a decrease of 7% compared to last year, influenced by the volatility of international quotations for petroleum products.

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

**GLOBAL ENVIRONMENT**

		2016	2015	%
Brent Dated	USD/bbl	44	52	-17%
Ural Med	USD/bbl	42	51	-18%
Brent-Ural Differential	USD/bbl	1.58	0.94	69%
Premium Unleaded 10 ppm FOB Med	USD/t	462	557	-17%
Diesel ULSD 10 ppm FOB Med	USD/t	395	494	-20%
RON/USD Average exchange rate		4.06	4.01	1%
RON/USD Closing exchange rate		4.30	4.15	4%
RON/EURO Average exchange rate		4.49	4.44	1%
RON/EURO Closing exchange rate		4.54	4.52	0%
USD/EURO Closing rate		1.06	1.09	-3%
Inflation in Romania*		-0.54%	-0.95%	-43%

Source: Platt's, JBC Energy

Global economic growth in 2016 was around 2.3% year-on-year, slightly lower than the previous year as some developed economies grew at a slower pace, and some emerging markets, particularly commodity exporters, continued to struggle amid still low oil prices. Growth in the US economy was slightly weaker than expected. Some uncertainty regarding the course of the US economy also stemmed from the elections and the relatively surprising result. Meanwhile, European economic growth was relatively stable at around 1.8%. The immediate impact of the Brexit vote on the UK economy was relatively contained, particularly through monetary policy. The UK economy



grew by around 1.9% (only 0.3 percentage points lower year-on-year). Turning to emerging markets, Chinese economic growth dropped only slightly from last year's levels to 6.4% as the government continued to adopt policies to support growth. The Indian economy was the best performing of all major emerging markets, with investments and support coming from low oil prices. In fact, India's economy grew by 7.5% in 2016.

Brent prices continued their year-on-year downward trajectory in 2016, averaging around \$44 per barrel versus the 2015 average of \$52 per barrel. The year began with quite dramatic falls in prices as oversupply continued to put pressure on Brent outright prices, which fell below the \$30 per barrel mark in January before gradually picking up throughout the year. Prices reached their peak of some \$56 per barrel in December following the OPEC and non-OPEC decisions in late November and early December to reduce production by a combined 1.8 million b/d over H1 2017.

Last year, Urals differentials relative to Dated Brent were at their widest level since 2011. Over the first half of 2016, Urals Med averaged at a level of \$1.67 per barrel to Dated Brent, some more than 90 cents per barrel lower than the -\$0.75 per barrel seen in H1 2015. However, the range at which Urals Med traded over this period remained relatively narrow, while H2 2016 was a much more volatile period. In the north, the Urals NWE/Dated Brent spread averaged -\$2.65 in the first half of last year, around \$1.05 wider than the same period in 2015, with differentials plummeting to -\$3.00/barrels in October and picking up to -\$1.70/barrel by the end of the year.

Overall 2016 was a relatively unusual year for Mediterranean (and global) gasoline cracks. Particularly strong gasoline cracks (and refining margins) at the start of the year led to reasonably high inventories forming in both the US and Europe over the course of Q1/Q2. In the end this kept summer gasoline cracks very subdued for that time of year. Seasonal average levels were only re-attained after the main summer demand period. Nevertheless, since then the sizeable surplus in global inventory levels has been reduced, especially over the Q4 2016 period, with help from healthy demand in most major regions, including Europe.

Diesel markets in 2016 suffered under the weight of contracting global demand concentrated in the Middle East and the Americas, which freed up extra export barrels. Supply also contracted in response, primarily through yield shifts in favor of gasoline and light distillates more generally, yet stocks remained exceedingly inflated at least until July. Some draws started to materialize over H2, possibly thanks to plummeting crude runs in Central & South America; however seen in terms of forward demand, the cover at end 2016 was 1.8 days higher compared to the 5 year average.

European diesel cracks entered the year in a depressed mode and only started to strengthen from May, with support stemming from both road transport and the agricultural sector. Considerably lower inflows for example US and to some extent also Russia were a supportive factor in Q4, yet the inventory overhang kept a firm lid on any major upside, and cracks remained substantially below 2015 levels on average.

Average Med cracking margins proved less buoyant in 2016 compared to the prior year. Gasoline cracks played a significant role in this change having stayed under pressure over the summer months. Nevertheless, average margins for simple, medium, and complex setups remained markedly higher than, for example, 2014.

A strong early and late year for the light distillate complex counterbalanced a still pressured (but gradually improving) middle distillate market, while a significantly tighter global fuel oil balance – signified by a marked improvement in cracks - also supported H2. The impact on the feedstock side should also not be underestimated; the Urals Med differential to Brent averaged significantly lower compared to 2015, providing a further margin advantage for these crudes versus other refining regions. Small wonder then that Med refinery intake levels were resilient especially over the latter months of 2016.





The evolution of FX market was concentrated in 2016, mainly around the following events:

- ✓ On 10th of March, the European Central Bank ("ECB") decided to cut key interest rates further (main refinancing rate from 0.05% to 0.00%, deposit rate from -0.3% to -0.4%, marginal lending rate from 0.3 % to 0.25%). ECB President, Mario Draghi, has cut rates to record lows, started a bond-buying program that will add at least 1.7 trillion euros (\$1.9 trillion) in liquidity, and offered ultra-cheap loans to banks as he tries to revive inflation in the 19-nation currency bloc.
- ✓ Brexit: Before 23rd of June, the day of the vote, the Brexit concerns continued to accelerate, leading to a global risk-off environment in which EUR started to depreciate vs. USD. Following this, the RON depreciated vs. EUR & USD as well. Euro-area economic confidence weakened in June in anticipation of a U.K. referendum that unexpectedly saw Britons choosing to leave the EU.
- ✓ U.S. Election Surprise -Trump scored a surprise victory over Democrat Hillary Clinton for the White House, while Republicans retained control of both the House of Representatives and the Senate. Since Trump's victory, federal funds futures have almost entirely priced in an increase.

Federal Reserve officials raised interest rates in December for the first time this year and forecast a steeper path for borrowing costs in 2017, saying inflation expectations have increased "considerably" and suggesting the labor market is tightening. After the positive output of Fed meeting, the USD appreciated versus almost all currency.

*\*The information is based on analysis provided by JBC Energy GmbH*



## REFINING

		2016	2015	%	2016	2015	%
Financial		USD	USD		RON	RON	
Gross Revenues	USD/RON	2,898,959,937	3,166,029,443	-8%	12,475,094,297	13,624,374,502	-8%
Net Revenues	USD/RON	1,976,229,685	2,262,829,917	-13%	8,504,309,203	9,737,635,982	-13%
EBITDA	USD/RON	124,717,672	63,103,975	98%	536,697,558	271,555,336	98%
EBITDA margin	%	6.3%	2.8%		6.3%	2.8%	
EBIT	USD/RON	65,112,548	78,865,765	-17%	280,198,828	339,383,047	-17%
Net profit / (loss)	USD/RON	45,542,814	119,408,751	-62%	195,984,392	513,851,679	-62%
Net profit / (loss) margin	%	2.3%	5.3%		2.3%	5.3%	
Gross cash refinery margin/tonne	USD/(RON)/t	42.47	34.44	23%	182.78	148.22	23%
Gross cash refinery margin/bbl	USD/(RON)/bbl	5.85	4.74	23%	25.17	20.41	23%
Net cash refinery margin/tonne	USD/(RON)/t	21.9	12.5	75%	94.4	53.9	75%
Net cash refinery margin/bbl	USD/(RON)/bbl	3.0	1.7	75%	13.0	7.4	75%
<b>Operational</b>							
Feedstock processed In Petromidia refinery	Kt	5,408	4,950	9%			
Feedstock processed In Vega refinery	Kt	354	329	8%			
Gasoline produced	Kt	1,448	1,206	20%			
Diesel & jet fuel produced	Kt	2,751	2,683	3%			
Motor fuels sales - domestic	Kt	1,884	1,662	13%			
Motor fuels sales - export	Kt	2,118	2,038	4%			
Export	%	53%	55%				
Domestic	%	47%	45%				

*Note: Refining segment comprises the results of the company Rompetrol Rafinare (which operates Petromidia and Vega refineries). Rompetrol Rafinare computes Gross refinery margin as follows: (Oil Product Sales – Cost of Feedstock) / Quantity of sales. Net Refinery margin is the EBITDA of the refinery divided by quantity of sales.*

Rompetrol Rafinare S.A. gross revenues reached over USD 2.898 billion during 2016 decrease by 8% as against 2015, influenced by the volatility of international quotations for petroleum.

In 2016 the total throughput for Petromidia refinery was 5.408 million tons by 9% higher compared with the last year when the total throughput was 4.95 million tons, as a result of refinery turnaround scheduled for the period October-November 2015.



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In 2016 the refining capacity utilization was 83.96% higher by 9.78% compared with last year.

In 2016 Petromidia refinery managed to achieve a very good operational performance, at historically record levels for its main technological and operational parameters such as:

- ✓ record feedstock processed of ~5.41 mil tons, an equivalent of 15.7 kt/day of operation total feedstock processed;
- ✓ record Auto Gasoline production of 1.25 mil tons;
- ✓ record Diesel production of 2.52 mil tons; Jet yield (4.4 %), equivalent of 237 kt production;
- ✓ record production of Propylene of 125 kt;
- ✓ record MTBE production of 41 kt reached in Petromidia refinery's history;
- ✓ technological loss of 0.91%wt;
- ✓ 97.9% Energy Intensity Index, lowest ever reached yearly in history;
- ✓ lowest processing cost in last 10 years (16.7 \$/ton);
- ✓ mechanical availability (96.9%).

In 2016 the total throughput for Vega refinery was 354.306 thousand tons by 7.78% higher compared with the last year, when the total throughput was 328.746 thousand tons.

In 2016 the refining capacity utilization for Vega refinery was 107% higher by 7.78% compared with last year.

In 2016 Vega refinery also managed to achieve very good operational performance results of which the following are emphasized:

- ✓ historical record for Bitumen production of 91 kt;
- ✓ historical record on Hexane yield (55%), equivalent of 83 kt production;
- ✓ highest production for Ecological Solvents of 40 kt;
- ✓ processing cost of 39.7 \$/mt, the lowest ever reached by the refinery;
- ✓ lowest technological loss of 1.1%wt;

On 22<sup>nd</sup> of August in Petromidia refinery there was a fire on a pipe in Vacuum Distillation Unit. Rapid measures for eliminating risks were taken and thus units were stopped gradually in safe conditions.

Until 25<sup>th</sup> August 2016 all refinery units were stopped in order to perform all the mechanical and technological activities related to slowdown which started on 24<sup>th</sup> of August (planned initially as slowdown in September). All refinery units restarted in safe condition, starting with 19<sup>th</sup> of September 2016.

The gross refinery margin improved in 2016 compared with last year by 23% reaching a level of 42.5 \$/t as against 34.4 \$/t in 2015. The company's financial results were positively influenced by favorable market conditions and by production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization, programs that started in the year 2014 and successfully continued in 2015 and 2016 (out of which reduction in steam and power consumption are the most significant).

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 1.277 billion in 2016 from excise, VAT, tax and social contributions, etc.



## PETROCHEMICALS

		2016	2015	%	2016	2015	%
Financial		USD	USD		RON	RON	
Revenues	USD/RON	180,271,804	189,392,593	-5%	775,763,654	815,013,145	-5%
EBITDA	USD/RON	6,320,969	(6,729,546)	-194%	27,201,026	(28,959,255)	-194%
EBIT	USD/RON	(8,865,805)	(20,780,498)	-57%	(38,152,219)	(89,424,718)	-57%
Net profit / (loss)	USD/RON	(11,264,121)	(29,833,264)	-62%	(48,472,892)	(128,381,486)	-62%
Operational							
Propylene processed	kt	124	113	9%			
Ethylene processed	kt	65	62	5%			
Sold from own production	kt	188	170	11%			
Sold from trading	kt	1	4	-67%			
Total sold		190	174	9%			
Export	%	57%	56%				
Domestic	%	43%	44%				

*Petrochemicals segment comprises the petrochemicals activity from Rompetrol Rafinare and the activity of Rompetrol Petrochemicals SRL*

Starting 1<sup>st</sup> of January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A., being fully integrated in the propylene, utilities and logistics flow with Petromidia refinery.

In terms of low density polyethylene unit (LDPE), the petrochemicals segment works 100% with ethylene from import.

The petrochemicals segment is the sole polypropylene producer in Romania and has constantly succeeded to increase its market share on secondary categories of products. Its dynamic development strategy has secured the company a competitive position on the domestic market and on the regional one – the Black Sea and Mediterranean region and the Eastern and Central Europe.

As of December 2016 YTD, the total polymers production for petrochemicals area was 149.524 thousand tons by 5 % higher compared with the same period last year when the total polymers production was 142.276 thousand tons.

For the petrochemicals activity 2016 was a good year in terms of operational performance, total polymers production was the highest in the last 5 years (amounting 150 kt), conversion cost of 269 \$/mt, and also 3 new grades of polymers were developed.

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[www.rompetrol-rafinare.ro](http://www.rompetrol-rafinare.ro)  
[www.rompetrol.com](http://www.rompetrol.com)**MARKETING**

		2016	2015	%	2016	2015	%
<b>Financial</b>		USD	USD		RON	RON	
Gross Revenues	USD/RON	2,196,231,269	2,311,311,224	-5%	9,451,042,020	9,946,265,590	-5%
EBITDA	USD/RON	55,320,629	56,760,757	-3%	238,061,263	244,258,566	-3%
EBIT	USD/RON	36,638,553	6,770,996	441%	157,666,686	29,137,627	441%
Net profit / (loss)	USD/RON	24,119,283	(18,622,552)	-230%	103,792,510	(80,138,429)	-230%
<b>Operational</b>							
Fuels quantities sold in retail	Kt	636	621	2%			
Fuels quantities sold in wholesale	Kt	1,126	1,014	11%			
LPG quantities sold	Kt	273	248	10%			

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

The marketing segment had a turnover of 2.196 billion during 2016, a 5% lower compared with 2015.

In 2016 compared to last year, the Platt's quotations (FOB Med Italy-mean), were on average by 17% lower for gasoline and by 20% lower for diesel amid an average RON/USD exchange rate increase by 1% as against last year.

By far the most important influencing factor in the variation of international prices of petroleum products have accounted discussions and speculations on limiting oil production by OPEC, following an agreement reached between members of the organization in late September.

The quotations evolution was also influenced by the economic reports of the major oil-consuming country, USA and China. Even the result of the presidential elections in the US had an impact on the evolution of oil prices, but was a short-term impact.

Internally, the only major influence in the evolution of fuel prices in Q4 were changes in international prices of oil products and sharp depreciation of the exchange rate RON/USD, depreciation generated mainly by the instability in the political scene before the parliamentary elections.

Rompetrol Downstream, covering the Romanian market, reached record sales in 2016 of 1.77 million tones, increase by 8% against 2015 (1.64 million tones). Also, the cost cutting actions continued by Rompetrol Downstream during 2016 and implementation of a new business model have allowed Rompetrol Downstream to obtain savings in operating expenses by 9% versus last year (over USD 8 million).

As of December 2016, the Rompetrol Downstream's distribution segment contained 734 points of sale, including owned stations, partner stations, mobile stations (express, cuves and internal bases).

In 2016, Rompetrol Quality Control (RQC) continued to record the good results, in order to consolidate its overall market share and to increase the turnover and profitability from third-party customers. In 2016, the net profit of the company increased by 20% compared with the year 2015 due to higher contribution and positive impact from exchange rate effect.



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[www.rompetrol.com](http://www.rompetrol.com)**APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2016, AUDITED**

	2016	2015	%	2016	2015	%
	USD	USD		RON	RON	
Gross Revenues	3,566,449,386	3,836,585,175	-7%	15,347,501,642	16,509,976,982	-7%
Sales taxes and discounts	(1,125,939,358)	(1,111,864,481)	1%	(4,845,254,839)	(4,784,686,421)	1%
<b>Net revenues</b>	<b>2,440,510,028</b>	<b>2,724,720,694</b>	<b>-10%</b>	<b>10,502,246,803</b>	<b>11,725,290,561</b>	<b>-10%</b>
Cost of sales	(2,191,393,341)	(2,517,972,377)	-13%	(9,430,222,964)	(10,835,590,531)	-13%
<b>Gross margin</b>	<b>249,116,687</b>	<b>206,748,317</b>	<b>20%</b>	<b>1,072,023,839</b>	<b>889,700,030</b>	<b>20%</b>
Selling, general and administration	(163,675,757)	(171,313,585)	-4%	(704,345,884)	(737,213,751)	-4%
Other expenses, net	7,016,968	23,520,422	-70%	30,196,119	101,215,433	-70%
<b>EBIT</b>	<b>92,457,898</b>	<b>58,955,154</b>	<b>57%</b>	<b>397,874,074</b>	<b>253,701,712</b>	<b>57%</b>
Finance, net	(32,728,268)	(57,722,184)	-43%	(140,839,555)	(248,395,875)	-43%
Unrealized net foreign exchange (losses)/gains	1,020,605	3,978,480	-74%	4,391,969	17,120,593	-74%
Realized net foreign exchange (losses)/gains	(6,166,624)	690,284	-993%	(26,536,833)	2,970,499	-993%
<b>EBT</b>	<b>54,583,611</b>	<b>5,901,734</b>	<b>825%</b>	<b>234,889,655</b>	<b>25,396,929</b>	<b>825%</b>
Income tax	2,561,756	58,753,802	-96%	11,024,004	252,835,236	-96%
<b>Net result</b>	<b>57,145,367</b>	<b>64,655,536</b>	<b>-12%</b>	<b>245,913,659</b>	<b>278,232,165</b>	<b>-12%</b>
<b>EBITDA</b>	<b>186,548,315</b>	<b>112,939,083</b>	<b>65%</b>	<b>802,773,364</b>	<b>486,010,756</b>	<b>65%</b>



## APPENDIX 2 – CONSOLIDATED BALANCE SHEET DECEMBER 31, 2016, AUDITED

	December 31, 2016	December 31, 2015	%	December 31, 2016	December 31, 2015	%
	USD	USD		RON	RON	
<b>Assets</b>						
<b>Non-current assets</b>						
Intangible assets	7,265,762	6,679,192	9%	31,266,754	28,742,568	9%
Goodwill	82,871,706	82,871,706	0%	356,621,813	356,621,813	0%
Property, plant and equipment	1,138,146,913	1,175,280,529	-3%	4,897,787,611	5,057,584,701	-3%
Financial assets and other	64,968,050	61,101,735	6%	279,577,010	262,939,097	6%
<b>Total Non Current Assets</b>	<b>1,293,252,431</b>	<b>1,325,933,162</b>	<b>-2%</b>	<b>5,565,253,188</b>	<b>5,705,888,179</b>	<b>-2%</b>
<b>Current assets</b>						
Inventories	230,091,565	175,731,732	31%	990,153,032	756,226,362	31%
Trade and other receivables	287,577,488	318,124,428	-10%	1,237,532,204	1,368,984,851	-10%
Derivative financial Instruments	5,340	-	N/A	22,980	-	N/A
Cash and cash equivalents	15,810,298	6,727,079	135%	68,036,455	28,948,638	135%
<b>Total current assets</b>	<b>533,484,691</b>	<b>500,583,239</b>	<b>7%</b>	<b>2,295,744,671</b>	<b>2,154,159,851</b>	<b>7%</b>
<b>Total assets</b>	<b>1,826,737,122</b>	<b>1,826,516,401</b>	<b>0%</b>	<b>7,860,997,859</b>	<b>7,860,048,030</b>	<b>0%</b>
<b>Equity and liabilities</b>						
<b>Total Equity</b>	<b>478,624,262</b>	<b>423,625,574</b>	<b>13%</b>	<b>2,059,663,788</b>	<b>1,822,987,933</b>	<b>13%</b>
<b>Non-current liabilities</b>						
Provision	76,429,343	79,036,717	-3%	328,898,391	340,118,704	-3%
Long-term debt	193,162,805	215,312,502	-10%	831,237,500	926,554,290	-10%
Other	483,680	463,090	4%	2,081,420	1,992,816	4%
<b>Total non-current liabilities</b>	<b>270,075,828</b>	<b>294,812,309</b>	<b>-8%</b>	<b>1,162,217,311</b>	<b>1,268,665,810</b>	<b>-8%</b>
<b>Current Liabilities</b>						
Trade and other payables	788,571,675	762,732,994	3%	3,393,460,492	3,282,268,893	3%
Derivative financial instruments	323,130	626,926	-48%	1,390,525	2,697,851	-48%
Short-term debt	289,142,227	344,718,598	-16%	1,244,265,743	1,483,427,543	-16%
<b>Total current liabilities</b>	<b>1,078,037,032</b>	<b>1,108,078,518</b>	<b>-3%</b>	<b>4,639,116,760</b>	<b>4,768,394,287</b>	<b>-3%</b>
<b>Total equity and liabilities</b>	<b>1,826,737,122</b>	<b>1,826,516,401</b>	<b>0%</b>	<b>7,860,997,859</b>	<b>7,860,048,030</b>	<b>0%</b>



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## Risk Management

The Group's activities expose it to a variety of risks including the effects of: changes in the international quotations for crude oil and petroleum products, foreign currency exchange rates and interest rates. The Group's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Group companies.

### Interest rate risk

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

### Foreign exchange risk

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in foreign currencies, which are translated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Group Treasury is responsible for handling the Group foreign currency transactions.

### Liquidity and cash flow risks

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

One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2016 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.

- *Trade receivables*

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

- *Financial instruments and bank deposits*

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



## Commodity price risk

The Group is affected by the volatility of crude oil, oil product and refinery margin prices. Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Group's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Group started on January 2011 to hedge commodities held by Rompetrol Rafinare and in 2014 it was implemented a hedging program in Rompetrol Downstream.

According to the hedge policy, on the raw materials and petroleum products side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, at the beginning of 2016, the hedge strategy for 2016 was split between futures and options while a certain quantity above base operating stock left unhedged.

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

## Operational risk

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

## Subsequent events

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until May 10, 2017.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until April 28, 2017.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2017.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2017.

At the end of March 2017 Rompetrol Rafinare SA is going to buy back a total of 770,000 CO2 certificates from Vitol SA.



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**Note:**

The Board of Directors Annual Report was prepared based on the audited financial statements.

The functional currency, as basis for preparing the financial statements, is USD. RON currency is used as currency for presenting the informations in USD, according to the International Financial Reporting Standards. All the RON information were obtained by multiplying the USD values with the exchange rate USD/RON = 4.3033 as of 31 December 2016.

**PRESIDENT OF BOARD OF DIRECTORS**  
Catalin Dumitru

**MEMBER OF THE BOARD OF DIRECTORS**  
Alexey Golovin

**MEMBER OF THE BOARD OF DIRECTORS**  
Yedil Utekov

**MEMBER OF THE BOARD OF DIRECTORS**  
Marius Mitrus

**MEMBER OF THE BOARD OF DIRECTORS**  
Mihai-Liviu Mihalache

Prepared by,  
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Vasile-Gabriel Manole