

**rompetrol**KazMunayGas
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www.rompetrol.com**REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE
ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED
AS OF JUNE 30, 2016**

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

HIGHLIGHTS – CONSOLIDATED

	H1 2016	H1 2015	%	H1 2016	H1 2015	%
	USD	USD		RON	RON	
Financiar						
Gross Revenues	1,702,624,994	1,986,067,239	-14%	6,916,743,776	8,068,199,551	-14%
Net Revenues	1,153,144,118	1,473,571,876	-22%	4,684,532,665	5,986,238,388	-22%
EBITDA	90,198,125	56,283,332	60%	366,420,863	228,645,408	60%
EBITDA margin	7.8%	3.8%		7.8%	3.8%	
EBIT	42,452,061	41,359,524	3%	172,457,253	168,018,879	3%
Net profit / (loss)	22,031,313	17,960,730	23%	89,500,007	72,963,618	23%
Net Profit / (loss) margin	1.9%	1.2%		1.9%	1.2%	

Rompetrol Rafinare Constanta (RRC) gross revenues reached over USD 1.702 billion in H1 2016 as compared with the same period in 2015, influenced by the decrease of international quotations for petroleum products, despite the increase in the volume of petroleum products sold.



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ENVIRONMENT

		H1 2016	H1 2015	%
Brent Dated	USD/bbl	40	58	-31%
Ural Med	USD/bbl	38	57	-33%
Brent-Ural Differential	USD/bbl	1.67	0.75	121%
Premium Unleaded 10 ppm FOB Med	USD/t	442	602	-27%
Diesel ULSD 10 ppm FOB Med	USD/t	360	545	-34%
RON/USD Average exchange rate		4.03	3.99	1%
RON/USD Closing exchange rate		4.06	4.00	2%
RON/EURO Average exchange rate		4.49	4.45	1%
RON/EURO Closing exchange rate		4.52	4.47	1%
USD/EURO Closing rate		1.11	1.12	-1%
Inflation in Romania*		-0.99%	-1.22%	-19%

Source: Platts, * INSSE

Over H1 2016 crude prices were again driven by market oversupply as producers ramped up output to maximize revenue in the lower flat price environment. Crude prices started the year off on a low as crude and product inventories continued to build, as US crude production did not decline as fast as many analysts had been expecting.

Several factors converged to make rebalancing possible for Brent. First off 2016 demand growth posted another strong year on the back of low prices, unexpected supply disruptions then occurred in Canada and Nigeria, while geopolitical issues also kept Libyan production at extremely low levels.

These unexpected supply outages came in addition to price-related outages for higher cost production following OPEC's strategy in this direction. Brent price averaged at \$40 per barrel in H1 2016 for Brent, by 31% lower than in H1 2015. The lower y-o-y price is fundamentally justified as it reflects another year of massive stock builds.

Urals differentials relative to Dated Brent are considerably wider this year than last. Over 2016 H1 Urals Med averaged a discount of \$1.67 per barrel to Dated Brent, some 90 cents per barrel higher than the \$0.75 per barrel witnessed in 2015 H1.

One of the factors leading to this result is the increase in Russian Urals supplies, both to the Med and NWE. The increase is related to the fall in flat prices which resulted in lower netbacks and therefore a lower implied refining subsidy. The resultant effect on refining economics was further exacerbated by a new tax regime in Russia that put pressure on refiners, ultimately leading to lower crude intake.

An argument for wider light/heavy differentials can also be made from a wider geographical perspective. The reduction in US shale production has increased US interest in higher quality crude imports, leading to a ramp up of African crudes' imports, thereby tightening availability for Europe and Asia. At the same time supply outages in Libya and Nigeria are further capping availability of lighter crudes, even as the supply of medium and heavy crudes increases due to production gains in the Middle East. A marked interest in gasoline-rich crudes in order



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to maximize gasoline yields (and minimize gas oil yields given soaring inventories) also contributed to the strength of lighter grades relative to heavier ones, although this trend is set to weaken in H2 2016.

While European gasoline cracks got off to a good start in 2016, significant seasonal weakness in cracks has set in gradually over the last few months influenced by: global demand for gasoline has remained a key driver of total oil demand growth. In Europe, last year's gasoline crack performance succeeded in stalling long-term declines in demand. However, extremely strong gasoline cracks over much of last year prompted a large response in terms of gasoline supply as refiners in most major regions avoided gas oil production through a shift towards light end yields. With gas oil cracks then gradually improving on weaker supply, this supported overall margins but meant crude runs stayed relatively high and kept pressure on gasoline. The result has been a distinct rise in global gasoline stocks in the US and in Europe with additional volume increases due to flow reduction towards key export destinations like Latin America and West Africa.

A particularly weak Q1 this year gradually gave way to Q2 improvements in European ULSD cracks, although outright levels remained below year-ago levels in both NWE and the Med. European gas oil/diesel supply tightened over H1, largely on the back of yield shifts towards lighter products. A partial recovery in diesel demand (especially from the US) brought some relief since Q1, while economic refinery run cuts through much of H1 in Russia, alongside heavy maintenance, also curbed gas oil/diesel exports.

JBC Energy's standard Urals cracking margin, based on a basket of crudes typically bought by Med refiners averaged around \$5.80/bbl over the year to date. This compares to about \$8.20 over the same period last year but is still a considerable improvement over the 2014 equivalent, largely because of seasonally high gasoline cracks in the early part of this year as well as a favorable crude market structure. Margins have, at least until now, been supportive enough to encourage relatively healthy levels of crude processing in NWE and the Med. While gasoline has been the undoubted margin driver through much of the year so far, we are now in the unusual summer situation where gasoline/diesel price spreads are very narrow and gasoline is no longer likely to encourage the same levels of crude intake.

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



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REFINING

		H1 2016	H1 2015	%	H1 2016	H1 2015	%
Financial		USD	USD		RON	RON	
Gross Revenues	USD/RON	1,392,259,088	1,728,212,159	-19%	5,655,913,319	7,020,689,075	-19%
Net Revenues	USD/RON	937,138,992	1,278,412,591	-27%	3,807,033,441	5,193,423,310	-27%
EBITDA	USD/RON	58,042,466	36,438,143	59%	235,791,714	148,026,312	59%
EBITDA margin	%	6.2%	2.9%		6.2%	2.9%	
EBIT	USD/RON	28,718,178	49,506,999	-42%	116,664,726	201,117,233	-42%
Net profit / (loss)	USD/RON	9,492,502	44,451,332	-79%	38,562,340	180,579,091	-79%
Net profit / (loss) margin	%	1.0%	3.5%		1.0%	3.5%	
Gross cash refinery margin/tonne (PEM)	USD/(RON) /t	42.31	36.69	15%	171.87	149.06	15%
Gross cash refinery margin/bbl (PEM)	USD (RON) /b	5.83	5.05	15%	23.67	20.52	15%
Net cash refinery margin/tonne (PEM)	USD/(RON) /t	19.87	14.73	35%	80.72	59.82	35%
Net cash refinery margin/bbl (PEM)	USD (RON) /b	2.74	2.03	35%	11.11	8.24	35%
Operational							
Feedstock processed	Kt	2,779	2,673	4%			
Gasoline produced	Kt	756	648	17%			
Diesel & jet fuel produced	Kt	1,406	1,431	-2%			
Motor fuels sales - domestic	Kt	906	821	10%			
Motor fuels sales - export	Kt	1,143	1,133	1%			
Export	%	56%	58%				
Domestic	%	44%	42%				

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.

The gross revenues of the refining segment reached USD over 1.392 billion in H1 2016 lower by 19% compared with H1 2015, influenced by the decrease of international quotations for petroleum products, despite the increase in the volume of petroleum products sold.



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In H1 2016, the total throughput for Petromidia refinery was 2.792 million tons by 4.34% higher compared with the same period last year when the total throughput was 2,676 million tons; the refining capacity utilization was 87.98% higher by 1.92% compared with the same period last year.

In respect of Vega refinery, in H1 2016, the total throughput refinery was 171.573 thousand tons by 9.46% higher compared with the same period last year when the total throughput was 156.752 thousand tons and the refining capacity utilization was 104% higher by 9% compared with the same period last year.

The gross refinery margin improved in 2016 compared with 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 608 million in H1 2016.



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PETROCHEMICALS

		H1 2016	H1 2015	%	H1 2016	H1 2015	%
		USD	USD		RON	RON	
Financial							
Revenues	USD/RON	91,069,411	96,879,413	-6%	369,960,375	393,562,927	-6%
EBITDA	USD/RON	7,045,456	(3,204,321)	N/A	28,621,460	(13,017,234)	N/A
EBIT	USD/RON	(750,755)	(10,505,415)	-93%	(3,049,868)	(42,677,198)	-93%
Net profit / (loss)	USD/RON	992,488	(16,813,004)	N/A	4,031,882	(68,301,147)	N/A
Operational							
Propylene processed	kt	65	62	4%			
Ethylene processed		31	29	7%			
Sold from own production	kt	97	90	7%			
Sold from trading	kt	1	2	-54%			
Total sold		98	92	6%			
Export	%	57%	58%				
Domestic	%	43%	42%				

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

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.

In H1 2016, the total polymers production for Petrochemicals area was 75.538 thousand tons by 0.66 % higher compared with the same period last year when the total polymers production was 75.041 thousand tons.



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MARKETING

		H1 2016	H1 2015	%	H1 2016	H1 2015	%
		USD	USD		RON	RON	
Financial							
Gross Revenues	USD/RON	1,033,754,848	1,112,444,968	-7%	4,199,525,695	4,519,196,438	-7%
EBITDA	USD/RON	26,521,498	25,819,137	3%	107,740,933	104,887,662	3%
EBIT	USD/RON	17,729,225	15,821,257	12%	72,023,202	64,272,274	12%
Net profit / (loss)	USD/RON	15,532,992	4,225,826	268%	63,101,225	17,166,994	268%
Operational							
Quantities sold in retail	Kt	294	289	2%			
Quantities sold in wholesale	Kt	556	468	19%			
LPG quantities sold	Kt	145	138	5%			

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

During the first 6 months of 2016, the marketing segment had a turnover of USD 1.033 billion, lower with 7% compared with the same period of 2015.

During the first 6 months of 2016 the exchange rate was only with 1% higher than during the same period of the previous year, the quotations expressed in USD decreased by 27% for gasoline and 34% for diesel, the combined effect of both factors being the effective decrease in RON quotations by approximately 26% for gasoline and approximately 33% for diesel.

The excise level was in Q2 and H1 2016 at the same levels as the ones during the same periods of the previous year. Under these conditions, following the decrease of international quotations for crude oil and petroleum products, Rompetrol fuel prices in their own stations, for Q2 and H1 2016, were below compared to the prices incurred in the same periods of 2015, by 13% for gasoline and by 14% for diesel in respect of Q2 2016 and by 12% for gasoline and by 16% for diesel in respect of H1 2016.

As of June 2016, the Rompetrol Downstream's distribution segment contained 716 points of sale, as follows: 137 network of owned stations (of which operated by dealers 97) ,118 partner stations and 461 mobile stations operated by customers and dealers (express, cuves and internal bases).



APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2016, UNAUDITED

Amounts in USD/RON

	H1 2016	H1 2015	%	H1 2016	H1 2015	%
	USD	USD		RON	RON	
Gross Revenues	1,702,624,994	1,986,067,239	-14%	6,916,743,776	8,068,199,551	-14%
Sales taxes and discounts	(549,480,876)	(512,495,363)	7%	(2,232,211,111)	(2,081,961,163)	7%
Net revenues	1,153,144,118	1,473,571,876	-22%	4,684,532,665	5,986,238,388	-22%
Cost of sales	(1,033,407,093)	(1,377,930,905)	-25%	(4,198,112,973)	(5,597,706,508)	-25%
Gross margin	119,737,025	95,640,971	25%	486,419,692	388,531,880	25%
Selling, general and administration	(78,602,299)	(79,546,442)	-1%	(319,313,980)	(323,149,464)	-1%
Other expenses, net	1,317,335	25,264,995	-95%	5,351,541	102,636,463	-95%
EBIT	42,452,061	41,359,524	3%	172,457,253	168,018,879	3%
Finance, net	(16,139,997)	(27,966,736)	-42%	(65,567,123)	(113,612,067)	-42%
Net foreign exchange gains / (losses)	(3,808,769)	5,084,579	N/A	(15,472,743)	20,655,593	N/A
EBT	22,503,295	18,477,367	22%	91,417,387	75,062,405	22%
Income tax	(471,982)	(516,637)	-9%	(1,917,380)	(2,098,787)	-9%
Net result	22,031,313	17,960,730	23%	89,500,007	72,963,618	23%
EBITDA	90,198,125	56,283,332	60%	366,420,863	228,645,408	60%



APPENDIX 2 – CONSOLIDATED BALANCE SHEET JUNE 30, 2016, UNAUDITED

Amounts in USD/RON

	June 30, 2016	December 31, 2015	%	June 30, 2016	December 31, 2015	%
	USD	USD		RON	RON	
Assets						
Non-current assets						
Intangible assets	6,210,845	6,679,192	-7%	25,230,937	27,133,550	-7%
Goodwill	82,871,706	82,871,706	0%	336,658,019	336,658,019	0%
Property, plant and equipment	1,135,431,893	1,175,280,529	-3%	4,612,578,521	4,774,459,620	-3%
Financial assets and other	61,803,913	61,101,735	1%	251,072,217	248,219,689	1%
Total Non Current Assets	1,286,318,357	1,325,933,162	-3%	5,225,539,694	5,386,470,878	-3%
Current assets						
Inventories	208,003,282	175,731,732	18%	844,992,533	713,892,588	18%
Trade and other receivables	349,539,663	318,124,428	10%	1,419,969,926	1,292,348,677	10%
Cash and cash equivalents	11,166,561	6,727,079	66%	45,363,037	27,328,086	66%
Total current assets	568,709,506	500,583,239	14%	2,310,325,496	2,033,569,351	14%
Total assets	1,855,027,863	1,826,516,401	2%	7,535,865,190	7,420,040,229	2%
Equity and liabilities						
Total Equity	444,778,183	423,625,574	5%	1,806,866,838	1,720,936,479	5%
Non-current liabilities						
Long-term debt	212,776,592	215,312,502	-1%	864,383,628	874,685,509	-1%
Provisions	77,519,273	79,036,717	-2%	314,914,294	321,078,759	-2%
Other	474,844	463,090	3%	1,929,006	1,881,257	3%
Total non-current liabilities	290,770,709	294,812,309	-1%	1,181,226,928	1,197,645,525	-1%
Current Liabilities						
Trade and other payables	787,183,806	762,732,994	3%	3,197,855,546	3,098,526,567	3%
Derivative financial instruments	274,670	626,926	-56%	1,115,819	2,546,824	-56%
Short-term debt	332,020,495	344,718,598	-4%	1,348,800,059	1,400,384,834	-4%
Total current liabilities	1,119,478,971	1,108,078,518	1%	4,547,771,424	4,501,458,225	1%
Total equity and liabilities	1,855,027,863	1,826,516,401	2%	7,535,865,190	7,420,040,229	2%



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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 2015 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.

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- *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 commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow.

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

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.

Potential risks arising from legal matters

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain current and former directors, managers and external censors of S.C. Rompetrol Rafinare S.A. («RRC»); these investigations were carried out at a formal level and materialized into different criminal proceeding activities (including specialized judicial expertise), currently undergoing the criminal prosecution phase. At the present date, none of



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the current directors of the Company is contemplated by the investigation initiated by the General Prosecutor's Office appended to the High Court of Cassation and Justice (PICCJ – DIICOT)

The charges brought against the defendants upon the initiation of the criminal investigations were:

- a) failure to fulfill the investment commitments undertaken under the privatization contract concerning the Parent;
- b) unlawful statement of excises and other debts to the state budget;
- c) incorrect keeping of accounting registries regarding the technological products operations undertaken at the oil terminal owned by Oil Terminal, charges which concern events that took place during April 2001 – October 2002;
- d) adoption of GEO no. 118/2003.

On May 6th 2016, considering the above mentioned charges, a seizure was instituted by DIICOT upon the movable and immovable goods of the company including upon the contributions held by the latter in its subsidiaries in Romania for a cumulated value of approximately USD 760 million. The same measure was instituted upon the parent company KMG International NV and its affiliate Oilfield Exploration Business Solutions as well.

The company filed an appeal against this DIICOT measure within the statutory period, and on June 17th 2016, the High Court of Cassation and Justice rejected the application of the company. Another complaint against the protective measure was filed before the hierarchically superior prosecutor, complaint currently pending before DIICOT.

The company's operational activity was not affected by the seizure instituted by DIICOT.

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 September 10, 2016.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million was extended until October 28, 2016.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until August 14, 2016.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until September 3, 2016.

Facility granted to Rompetrol Rafinare S.A. by Bancpost in amount of EUR 30 million has been extended until July 31, 2017.



rompetrol

KazMunayGas
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Note: The Board of Directors Report was prepared based on the unaudited 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 = 4.0624 as of 30 June 2016.

Chairman of the Board of Directors
of ROMPETROL RAFINARE S.A.


Azamat Zhangulov

Chief Executive Officer


Yedil Utekov

Chief Financial Officer


Vasile-Gabriel Manole