

## **ROMPETROL RAFINARE S.A.**

### **UNAUDITED INDIVIDUAL FINANCIAL STATEMENTS**

#### **Prepared in compliance with**

Order of the Minister of Public Finance no. 2844/2016

For approval of the accounting regulations in compliance with  
the International Financial Reporting Standards

**31 MARCH 2018**

**ROMPETROL RAFINARE S.A.**  
**Individual Financial Statements**

Prepared in compliance with the Order of the Minister of Public Finance no. 2844/2016

**As at 31 March 2018**

---

<b>CONTENTS:</b>	<b>PAGE</b>
Statement of the financial position	3
Profit and loss account	4
Statement of comprehensive income	5
Statement of treasury flows	6
Statement of changes in equity	7
Explanatory notes to the financial statements	8 - 61

**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**  
**As at 31 March 2018**

*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>Notes</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Intangible assets	3	13,918,260	14,618,988
Goodwill	4	152,720	152,720
Property, plant and equipment	5	3,623,191,883	3,680,205,350
Financial assets	6	1,629,020,055	1,629,020,055
Deferred tax asset	20	156,961,477	156,961,477
<b>Total non current assets</b>		<b>5,423,244,395</b>	<b>5,480,958,590</b>
Inventories, net	7	921,454,019	1,014,258,927
Receivables and prepayments, net	8	1,488,356,061	1,577,627,271
Cash and cash equivalents	9	14,045,727	22,863,280
<b>Total current assets</b>		<b>2,423,855,807</b>	<b>2,614,749,478</b>
<b>TOTAL ASSETS</b>		<b>7,847,100,202</b>	<b>8,095,708,068</b>
Subscribed share capital	10	4,410,920,573	4,410,920,573
Share premium	10	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	10	590,629,026	600,663,192
Other reserves	10	3,423,006,801	3,424,144,892
Accumulated losses		(6,078,873,148)	(6,507,244,042)
Current year result		50,481,057	418,336,728
<b>Total equity</b>		<b>2,628,801,416</b>	<b>2,579,458,450</b>
Hybrid loan - long-term portion	10	57,155,251	57,155,251
Long-term borrowings from banks	13	-	-
Provisions	14	313,475,981	327,130,219
<b>Total non-current liabilities</b>		<b>370,631,232</b>	<b>384,285,470</b>
Trade and other payables	11	3,574,947,205	3,981,167,078
Derivatives	27	1,653,847	515,760
Short-term borrowings from affiliates	12	607,680,036	683,141,317
Short-term borrowings from banks	12	663,386,466	467,139,993
<b>Total current liabilities</b>		<b>4,847,667,554</b>	<b>5,131,964,148</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,847,100,202</b>	<b>8,095,708,068</b>

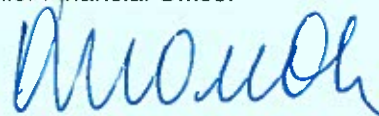
**CATALIN DUMITRU**  
President of the Board of Directors



**YEDIL UTEKOV**  
Chief Executive Officer



**VASILE-GABRIEL MANOLE**  
Chief Financial Officer



**Prepared by (Chief Accountant)**  
Alexandru Cornel Anton



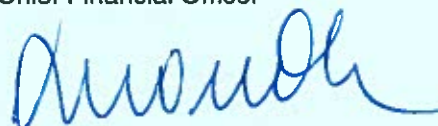
**ROMPETROL RAFINARE S.A.**  
**PROFIT AND LOSS STATEMENT**  
**for financial year ending on 31 March 2018**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	Notes	<u>January - March</u> <u>2018</u>	<u>January - March</u> <u>2017</u>
Net revenues	15	3,330,366,665	2,357,915,945
Cost of sales	16	(3,264,732,643)	(2,259,536,044)
<b>Gross profit</b>		<b>65,634,022</b>	<b>98,379,901</b>
Selling, general and administrative expenses	17	(65,295,866)	(61,307,449)
Other operating expenses	18	(21,889,638)	(8,224,012)
Other operating income		15,472,209	-
<b>Operating profit/ (loss)</b>		<b>(6,079,273)</b>	<b>28,848,440</b>
Financial expenses	19	(35,968,787)	(38,750,747)
Financial revenues	19	3,228,839	8,435,764
Net foreign exchange gains / (losses)	19	89,300,278	27,013,722
<b>Profit before income tax</b>		<b>50,481,057</b>	<b>25,547,179</b>
Deferred tax	20	-	-
<b>Net Profit</b>		<b>50,481,057</b>	<b>25,547,179</b>
<b>Earnings per share (bani/share)</b>	23	0,95	0,16

**CATALIN DUMITRU**  
President of the Board of Directors



**VASILE-GABRIEL MANOLE**  
Chief Financial Officer



**YEDIL UTEKOV**  
Chief Executive Officer



**Prepared by (Chief Accountant)**  
Alexandru Cornel Anton



**ROMPETROL RAFINARE S.A.**  
**OTHER ELEMENTS OF THE GLOBAL EARNINGS**  
**for financial exercise ending on 31 March 2018**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>January - March 2018</u>	<u>January - March 2017</u>
<b>Net Profit / (Loss)</b>	<b>50,481,057</b>	<b>25,547,179</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):</i>		
Gains / (losses) from derivatives	(1,138,091)	(951,897)
<b>Total comprehensive income to be reclassified income statement in subsequent periods (net of tax):</b>	<b>(1,138,091)</b>	<b>(951,897)</b>
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</i>		
Revaluation of buildings category in property plant and equipment	(10,034,166)	-
The retained earnings representing the surplus from revaluation reserves	10,034,166	-
<b>Total other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</b>	<b>-</b>	<b>-</b>
<b>Total other comprehensive income for the year, net of tax</b>	<b>(1,138,091)</b>	<b>(951,897)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>49,342,966</b>	<b>24,595,282</b>

**CATALIN DUMITRU**  
President of the Board of Directors



**VASILE-GABRIEL MANOLE**  
Chief Financial Officer



**YEDIL UTEKOV**  
Chief Executive Officer



**Prepared by (Chief Accountant)**  
Alexandru Cornel Anton



**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF TREASURY FLOWS**  
**for financial exercise ending on 31 March 2018**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
<b>Net result before income tax</b>	<b>50,481,057</b>	<b>25,547,176</b>
<i>Adjustments for:</i>		
Depreciation and amortisation	74,482,529	66,534,938
Provisions for receivables and inventories (incl write-off)	20,339,816	7,903,903
Provision for environmental liabilities and litigations	(13,654,238)	-
Expenses with penalties	1,634	2,282
Interest expenses	35,968,787	38,750,747
Interest income	(3,228,840)	(8,432,038)
Losses/gains from derivatives	(4)	6,589
Unrealised foreign exchange (gain)/loss from restatement and monetary items	(5,601,464)	(77,314,703)
<b>Cash generated from operations before working capital changes</b>	<b>158,789,277</b>	<b>52,996,003</b>
<i>Net working capital changes in:</i>		
Receivables and prepayments	68,053,909	(387,942,446)
Inventories	86,295,536	(120,855,202)
Trade and other payables, including payables variation for capital expenditures	(306,499,362)	879,820,166
<b>Change in working capital</b>	<b>(152,149,917)</b>	<b>371,022,518</b>
<b>Cash payments for derivatives, net</b>	<b>390,546</b>	<b>(126,731)</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>7,029,906</b>	<b>423,891,790</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(16,869,466)	(16,802,578)
Purchase of intangible assets	101,132	(146,335)
<b>Net cash used in investing activities</b>	<b>(16,768,334)</b>	<b>(16,948,913)</b>
<b>Cash flows from financing activities</b>		
Cash pooling	(115,318,770)	(356,595,009)
Short - term loans/ (repaid to) received from banks, net	209,637,287	100,791,603
Long - term loans repaid to banks	-	(96,835,645)
Short - term loans (repaid to)/ received from shareholders and related parties	(57,428,856)	(40,263,727)
Interest and bank charges paid, net	(35,968,787)	(38,624,016)
<b>Net cash from financing activities</b>	<b>920,874</b>	<b>(431,526,794)</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>	<b>(8,817,553)</b>	<b>(24,583,917)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>22,863,280</b>	<b>45,891,549</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>14,045,727</b>	<b>21,307,632</b>

**CATALIN DUMITRU**  
President of the Board of Directors

**YEDIL UTEKOV**  
Chief Executive Officer

**VASILE-GABRIEL MANOLE**  
Chief Financial Officer

**Prepared by (Chief Accountant)**  
Alexandru Cornel Anton



**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**As at 31 March 2018 and 31 March 2017**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1 <sup>st</sup> of January 2017	4,410,920,573	232,637,107	(6,486,327,205)	-	-	3,169,670,514	1,326,900,989
Net profit for Q1 2017	-	-	25,547,179	-	-	-	25,547,179
Gains/losses related to derivative financial instruments	-	-	-	-	-	(951,897)	(951,897)
Total other comprehensive income for Q1 2017	-	-	-	-	-	(951,897)	(951,897)
Total comprehensive income for Q1 2017	-	-	25,547,179	-	-	(951,897)	24,595,282
Transfer to legal reserves	-	-	-	-	-	-	-
31 <sup>st</sup> of March 2017	4,410,920,573	232,637,107	(6,460,780,026)	-	-	3,168,718,617	1,351,496,271
1 <sup>st</sup> of January 2018	4,410,920,573	232,637,107	(6,088,907,313)	715,075,229	(114,412,037)	3,424,144,892	2,579,458,450
Net profit for Q1 2018	-	-	50,481,057	-	-	-	50,481,057
Revaluation reserves	-	-	-	(10,034,166)	-	-	(10,034,166)
The retained earnings representing the surplus from revaluation reserves	-	-	10,034,166	-	-	-	10,034,166
Gains/losses related to derivative financial instruments	-	-	-	-	-	(1,138,091)	(1,138,091)
Total other comprehensive income for Q1 2018	-	-	10,034,166	(10,034,166)	-	(1,138,091)	(1,138,091)
Total comprehensive income for Q1 2018	-	-	60,515,223	(10,034,166)	-	(1,138,091)	49,342,966
Transfer to legal reserves	-	-	-	-	-	-	-
31 <sup>st</sup> of March 2018	4,410,920,573	232,637,107	(6,028,392,090)	705,041,063	(114,412,037)	3,423,006,801	2,628,801,416

**DUMITRU CATALIN**  
President of the Board of Directors

**YEDIL UTEKOV**  
Chief Executive Officer

**VASILE-GABRIEL MANOLE**  
Chief Financial Officer

**Prepared by (Chief Accountant)**  
Alexandru Cornel Apton

## **1. GENERAL**

Rompotrol Rafinare S.A. (hereinafter referred to as "the Company" is a company incorporated under Romanian laws. The Company operates two refineries Petromidia and Vega and also the petrochemical sector. Petromidia Refinery is the one with the highest capacity (of 5 million tons/annum, nameplate capacity) and the only Romanian refinery at the Romanian Black Sea shore, which processes exclusively imported crude oil and produces E.U. standard motor fuels, other petroleum products and certain petrochemicals. Petromidia refinery was designed and built during 1975 and 1977 and was further upgraded in the early '90s and between 2005 - 2012. Vega refinery was built in 1905 and upgraded in the following decades.

Rompotrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 31 March 2018 is 1,169, respectively 1,157 as at 31 December 2017.

The registered address of Rompotrol Rafinare S.A. is 215 Navodari Blvd., Constanta, Romania.

Rompotrol Rafinare S.A. is a joint stock company listed in the Bucharest Stock Exchange since 2004.

The Company is a part of the KMG International N.V. The consolidated financial statements are prepared at the level of the parent company KMG International N.V., with the head office located at World Trade Center, Strawinskylaan 807, Tower A, 8th Floor, 1077 XX, Amsterdam, The Netherlands. These annual financial statements are public.

The ultimate parent of the KMG International N.V. is the company "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan and owned by the Kazakh State.

The company also prepares consolidated financial statements that have a public character and are available on the website of the company, [www.rompetrol.com](http://www.rompetrol.com), at the section Relation with Investors, subsection Rompotrol Refining.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of preparation and statement of compliance**

Effective as of 31 December 2012, the standalone financial statements of the Company are prepared in accordance with the Order of the Minister of Public Finance no. 1286/2012 subsequent amended by Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting regulations in compliance with the International Financial Reporting Standards applicable to the companies whose real estate values are accepted for transaction on a regulated market. These stipulations are compliant with the requirements of the International Financial Reporting Standards as approved by the European Union, except the regulations of IAS 21, *the Effects of the exchange rate variation* with regards to the functional currency.

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

The standalone financial statements were prepared based on the historical cost, except for financial instruments and buildings category which are presented at the fair value in the account of profit and loss, and in the statement of other comprehensive income, respectively.

The standalone financial statements are prepared in RON and all the values are rounded up to the closest amount in lei, if not otherwise indicated.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **b) The going concern**

The financial statements of the Company are prepared on a going concern basis. As at 31 March 2018 and 31 December 2017, the Company reported net assets amounted to RON 2,629 million and RON 2,579 million respectively. For the exercise ended as at 31 March 2018 and 31 December 2017, the Company reported a profit of RON 50.5 million, and of RON 418.3 million respectively. The accumulated losses incurred in the past are due to the fact that the Company has been affected by the specific of the refining activity, characterized by a significant volatility and lower refinery margins in the past years, but considering that the massive investment trend of the last period combined with an improvement in market conditions the company has achieved and is aiming for future positive financial results which will decrease the cumulated loss recorded so far.

The strategy for the following years is a mix of projects of optimization of production and energy costs, optimum utilization of refining capacity and improvement of production yields. In order to improve the financial performance, the following measures have been taken:

- Reducing the refinery costs for the purpose of rendering the processes efficient and increasing profitability.
- Improvement of the product mix in order to increase the share of higher margin products

The management claims that these developments will lead to an improvement of the Company's capacity to financially support its ongoing operations.

At 31 March 2018, respectively 31 December 2017 the Company's net assets are higher than half of the value of the subscribed share capital in compliance with Law no. 31/1990 regarding the trade companies, as amended.

Considering the Company's plans for 2018, and other aspects above mentioned, it is considered that the preparation of the financial statements is based on the ongoing activity principle.

### **c) Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2018:

- **IFRS 9 Financial Instruments**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company adopted the new standard on the required effective date and has not restated comparative information.

Overall, the Company recorded no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

#### **a) Classification and measurement**

The Company did not record a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria under IFRS 9, therefore reclassification for these instruments is not required

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **b) Impairment**

IFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Company chose to apply the simplified approach and record lifetime expected losses on all trade receivables.

### **• IFRS 15 Revenue from Contracts with Customers**

The Company adopted the new standard on the required effective date using the modified retrospective method. During 2017, the Company performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

The Company analysed the main revenue streams by applying the "five steps" model prescribed by IFRS 15:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Based on the results of review of contractual terms of principal types of contracts, the Company concluded that IFRS 15 will not have a significant impact compared with current revenue recognition.

### **Revaluation of buildings category in property, plant and equipment**

Rompetrol Rafinare S.A. re-assessed its accounting for property, plant and equipment with respect to measurement of a certain class of property, plant and equipment after initial recognition. The Company had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

Starting December 31, 2017, the Company elected to change the method of accounting for buildings category classified as property, plant and equipment, because the Company believes that the revaluation model provides more relevant information to the users of its financial statements. The change from cost to revaluation method will provide a more transparent and up-to-date picture of the value of the Company's buildings, reflecting the economic reality upon which it operates. Historical cost was significantly below fair value due to changes in the real estate market in the period since the Company first adopted IFRS (15 years ago).

The Company applied the revaluation model prospectively.

After initial recognition, buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to note 5.

### **d) Standards issued but not yet effective and are not early adopted**

The Company has not early adopted the following standards/interpretations:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no significant impact from application of this standard.

- **The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. None of these had a significant effect on the Company's financial statements:

- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment require entities to use audited actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company's level from application of this standard.

### e) Significant professional judgements, estimates and assumptions

The preparation of the financial statements requires that the management should issue professional judgments, estimates and assumptions that affect the reported amounts of revenues and expenses, of assets and liabilities and the disclosure of contingent liabilities at the reporting date. The estimates and associated assumptions are based on the previous experience and on other factors considered relevant. However, uncertainty about these forecasts and estimates could result in adjusting the accounting value of the assets and liabilities in the future periods.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The estimates and assumptions that are the basis of the accounting judgements are constantly reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period or in the period of the revision and the future periods if the revision affects both current and the future periods.

The matters presented below are considered to be the most important in understanding the professional judgments that affect the preparation of these financial statements and the uncertainties that could affect the result of the operations, the financial position and the treasury flows.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that can lead to material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

### **- Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the carrying amounts for major property, plant and equipment are tested for impairment.

If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is higher of fair value less costs to sell, and value in use determined as the amount of estimated discounted future cash flows. Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand and product margins. Other factors that can lead to changes in estimates include restructuring plans and legislations changes. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### **- Provision for environmental liability**

The Company is involved in refining and petrochemicals. Environmental damage caused by such activities may require the Company to incur restoration costs to comply with the regulations in force. Analysis and estimates are performed by the Company together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which cash outflow may be probable, are recognized as a provision in the Company's financial statements. When the final determination of such obligations differs from the recognized provisions, difference is registered in the Company's profit and loss account.

Additional details on the provisions related to the environment-related obligations are set out in Note 14.

### **- Deferred tax assets**

Deferred tax assets resulting from the unused tax losses are recognized only to the extent that it is probable that taxable profit will be available, against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Additional details on the deferred tax applicable to the corporate tax Note 20.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### - *Carrying value of trade and other receivables*

The Company assesses at each reporting date the requirement for an adjustment for impairment in trade and other receivables. The Company uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an adjustment. The adjustment is recognized where there is an objective evidence that a particular trade receivable or a group of trade receivables are impaired.

### - *Carrying value of inventories*

The Company considers on a regular basis the carrying value of inventories in comparison to planned use of the inventories, the effect of damaged or obsolete inventories, technical losses and the net realizable value in comparison to the cost, based on latest available information and market conditions. As applicable, it is recorded an adjustment for impairment of inventories.

### - *Provision for litigations*

The Company analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the litigation, the expected claim to be paid and the expected timing of the payments. Changes to these estimates could have a significant impact on the amount of the provision. Further details on the provisions relating to litigations are provided in Notes 14, 18, 25.

## f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### *a. Financial assets*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

### Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables at amortized cost;
- Held-to-maturity investments, at amortized cost;
- Available-for-sale financial assets, at fair value with the changes recognized directly in equity;

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Company has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR (effective interest rate) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

### ***b. Financial liabilities***

#### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss

#### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *c. Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

### *d. Impairment of financial assets*

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a Company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **g) Property plant and equipment**

Property, plant and equipment of the Company are stated at cost less cumulative depreciation, except for buildings that are periodically revalued and booked at fair value.

The initial cost of property, plant and equipment comprises its purchase price, including custom duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and the condition necessary for operation. Expenses incurred after commissioning of the asset, such as repairs and maintenance costs are recorded in the income profit and loss account in the period in which the costs occurred. In situations where it can be demonstrated that expenses have increased the future economic benefits obtained from the use of intangible assets besides the standard evaluation of its performance, the expenditure is capitalized as additional costs of the tangible assets.

Starting December 31, 2017, the Company changed its accounting policies regarding the recognition and measurement for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

Buildings category are measured at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation. Valuations need to be performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings, unless a transfer hasn't been already made during utilization period of the revalued asset.

Assets in progress represent installations and buildings in construction and are presented at cost, less any impairment losses. This includes the cost of construction and other direct costs. Depreciation of these assets and the others is registered starting with the date when they are ready to be used for the activity they are intended.

Buildings and other constructions	10 - 100 years
Tanks	20 - 30 years
Tools and other technological equipment	3 - 20 years
Vehicles	5 years
Furniture and office equipment	3 - 10 years
Computers	3 years

Hence to changing of the accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revaluated at December 31, 2017. The remaining life utilization were estimated by the specialized valuer based on ANEVAR's Assessment Guide GEV 500 (in concordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018.

When assets are sold or derecognized, their cumulative costs and depreciation are eliminated and any income or loss resulting from their disposal is included in the income statement.

Assets purchased under finance leases are recorded in the statement of financial position and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

### **h) Intangible assets**

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits should be attributable to the asset and flow to the enterprise and if the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives:

Intangible assets consist of software and licenses and are amortized on a straight-line basis over 3 - 5 years, respectively 24-25 years for the licenses for transmission of technological data from the plant to the Refinery command center.

Development costs for specific projects which are reasonably anticipated to be recovered through commercial activity as well as expenditure on acquired computer software licenses are capitalized and amortized using the straight-line method over their useful lives, generally 3 years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programs are expensed as incurred.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **i) Financial assets**

Financial assets represent long-term strategic investments and are stated at historical cost, less any adjustments impairment caused by a diminished value. The main indicators considered for the identification of impairment are current and anticipated results of the company in question, in the context of the industry in which it operates.

Further details on financial assets are provided in Note 6.

### **j) Impairment of non-financial assets**

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the respective asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is stated at revalued amount in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **k) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Additional comments on the following specific liabilities are:

### **- Decommissioning liability**

Decommissioning costs are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the income statement as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are added to or deducted from the cost of the assets

### **- Environmental liabilities**

Environmental expenditure that relates to current or future revenues is expensed or capitalized as appropriate. Expenditure that relates to an existing condition caused by past operations and that does not contribute to current or future earnings is recorded in the profit and loss account.

The Company has an environmental policy which complies with existing legislation and complies with any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Company has set up a monitoring system in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any known future environmental requirements.

The above mentioned expenses are estimated based on the relevant environmental studies.

Liabilities for environmental remediation costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

## **l) Inventories**

Inventories, including work-in-process are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

## **m) Receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators the receivable must be impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **n) Cash and cash equivalents**

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

### **o) Recognition of revenues**

Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and sales discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its concluded arrangements.

The following specific recognition criteria must be met before revenue is recognized, if the entity:

- has primary responsibility for providing the goods or services;
- has inventory risk;
- has discretion in establishing prices;
- bears the credit risk.

In addition:

- Sales of goods are recognized when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognized when services are rendered.
- Interest income is recognized on a time-portion basis using the effective interest method.
- Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

### **p) Interest bearing loans**

All loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortized cost, using the effective interest method.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well through the amortization process.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All the other costs are expensed in the period they occur. Borrowing costs consists of interest and other cost that an entity incurs in connection with the borrowing of funds.

### **q) Retirement benefit costs**

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Company pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Under collective labor agreements, the employees are entitled to specified retirement benefits, payable on retirement, if they are employed with the Company at the date of their retirement. These amounts are estimated as of the reporting date, based on the following informations: applicable benefits provided in the agreement; the number of employees in the Company and the actuarial estimates of the future loans. The defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the profit and loss account. All actuarial gains and losses are fully recognised in other comprehensive income items in the period in which they occur for all defined benefit plans. Actuarial gains and losses recognized in other comprehensive income are presented in the statement of comprehensive income.

The Company has no other liabilities with respect to future pensions, health plans and other costs for its employees.

### **r) Taxes**

#### **- Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **- Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted until the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss account is recognized outside profit or loss account. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

### **- Sales (revenues) related tax**

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### **s) Dividends**

Dividends are recorded in the year in which they are approved by the shareholders.

### **t) Emission rights**

The Company refining and petrochemicals operations are allocated CO2 emission rights quota.

The Company accounts for the liability for these emissions using net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies.

### **u) Foreign Currency Transactions**

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The exchange rates RON/USD and RON/EUR are the following:

<b>Currency</b>	<b>31 March 2018</b>	<b>31 December 2017</b>
RON/USD	3.7779	3.8915
RON/EUR	4.6576	4.6597

The Company translates its transactions and balances in foreign currency, in the functional currency by applying the exchange rate between the functional currency and the foreign currency at the date of transaction.

Exchange rate differences arising on the settlement of monetary assets and liabilities or on reporting them at rates different from those at which they were initially recorded during the period or reported in the previous financial statements are recognized in the income statement in the period they arise.

### **v) Derivative financial instruments**

The Company enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the Company primarily to commodity risks of changes in fair value of crude oil and related oil products.

The Company uses financial instruments (primarily futures, options and swaps) to hedge its risks associated with fair value fluctuation relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

#### *Fair value hedge*

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). The company hedges priced inventories (both raw materials and finished products) around BOS (based operated stock) using futures instruments for a period that approximately matches the operating cycle.

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognized, the unamortized fair value is recognised immediately in profit or loss (see Note 16).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in period profit or loss as they arise.

#### *Cash Flow Hedge*

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.). Throughout a given period, the volatility associated with the oil market, both in crudes and in finished, is transmitted to the Company's refinery margin (difference between the purchase price of crude oil and the selling price of finished products). To reduce this volatility, the Company hedges the margin with a swap on a hedged basket as relevant for the period.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see Note 16).

### **w) Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

### 3. INTANGIBLE ASSETS

	<u>Software / Licenses</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<b>Cost</b>				
<b>Opening balance as of January 1, 2017</b>	<u>45,968,850</u>	<u>150,123</u>	<u>6,441,382</u>	<u>52,560,355</u>
Additions	<u>145,321</u>	<u>-</u>	<u>410,749</u>	<u>556,070</u>
<b>Closing balance as of December 31, 2017</b>	<u>46,114,171</u>	<u>150,123</u>	<u>6,852,131</u>	<u>53,116,424</u>
Additions	<u>26,436</u>	<u>-</u>	<u>-</u>	<u>26,436</u>
Transfers, reclassifications and adjustments*	<u>-</u>	<u>-</u>	<u>(127,569)</u>	<u>(127,569)</u>
<b>Closing balance as of March 31, 2018</b>	<u>46,140,607</u>	<u>150,123</u>	<u>6,724,562</u>	<u>53,015,292</u>
<b>Accumulated amortization</b>				
<b>Opening balance as of January 1, 2017</b>	<u>(35,772,954)</u>	<u>(62,551)</u>	<u>-</u>	<u>(35,835,505)</u>
Charge for the year	<u>(2,611,891)</u>	<u>(50,041)</u>	<u>-</u>	<u>(2,661,932)</u>
<b>Closing balance as of December 31, 2017</b>	<u>(38,384,844)</u>	<u>(112,592)</u>	<u>-</u>	<u>(38,497,436)</u>
Charge for the year	<u>(587,085)</u>	<u>(12,510)</u>	<u>-</u>	<u>(599,596)</u>
<b>Closing balance as of March 31, 2018</b>	<u>(38,971,930)</u>	<u>(125,102)</u>	<u>-</u>	<u>(39,097,032)</u>
<b>Net book value</b>				
<b>As of December 31, 2017</b>	<u>7,729,326</u>	<u>37,531</u>	<u>6,852,131</u>	<u>14,618,988</u>
<b>As of March 31, 2018</b>	<u>7,168,677</u>	<u>25,021</u>	<u>6,724,562</u>	<u>13,918,260</u>

\* ) Includes transfers from assets in progress, transfers in/from tangible assets, reclassifications to other categories and other adjustments.

Major part of „Other” intangible assets refer to development expenses.

### 4. GOODWILL

The goodwill amounting to RON 152,720 represents fractions of the trade funds of the companies Oilfield Exploration Business Solutions SA (former Rompetrol S.A)., Rompetrol Downstream S.R.L. and Rompetrol Well Services S.A., following purchase of shares from these companies in Rom Oil S.A.

## 5. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Furniture and others</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost or valuation</b>						
<b>As of January 1, 2017</b>	<b><u>192,480,007</u></b>	<b><u>1,867,001,642</u></b>	<b><u>3,348,858,449</u></b>	<b><u>12,247,315</u></b>	<b><u>161,917,727</u></b>	<b><u>5,582,505,139</u></b>
Acquisitions	-	7,951	2,776,519	47,169	233,753,224	236,584,863
Revaluation	-	695,473,926	-	-	-	695,473,926
Transfers from CIP	-	43,931,192	162,717,589	4,095,408	(210,750,367)	(6,178)
Transfers and reclassifications*	-	(981,048,534)	-	-	-	(981,048,534)
<b>As of December 31, 2017</b>	<b><u>192,480,007</u></b>	<b><u>1,625,366,178</u></b>	<b><u>3,514,352,557</u></b>	<b><u>16,389,891</u></b>	<b><u>184,920,584</u></b>	<b><u>5,533,509,217</u></b>
Acquisitions	-	-	38,270	32,639	16,798,556	16,869,466
Transfers from CIP	-	2,563,604	-	-	(2,563,604)	-
Transfers and reclassifications*	-	31,768,470	(31,768,470)	-	-	-
<b>As of March 31, 2018</b>	<b><u>192,480,007</u></b>	<b><u>1,659,698,251</u></b>	<b><u>3,482,622,358</u></b>	<b><u>16,422,530</u></b>	<b><u>199,155,537</u></b>	<b><u>5,550,378,683</u></b>
<b>Accumulated depreciation &amp; impairment</b>						
<b>As of January 1, 2017</b>	<b><u>(24,060,893)</u></b>	<b><u>(927,515,686)</u></b>	<b><u>(1,603,558,648)</u></b>	<b><u>(6,144,605)</u></b>	<b><u>(3,171,485)</u></b>	<b><u>(2,564,451,316)</u></b>
Charge for the year	(1,839,934)	(53,574,511)	(213,631,668)	(854,973)	-	(269,901,085)
Transfers and reclassifications*	-	981,048,534	-	-	-	981,048,534
<b>As of December 31, 2017</b>	<b><u>(25,900,827)</u></b>	<b><u>(41,662)</u></b>	<b><u>(1,817,190,315)</u></b>	<b><u>(6,999,577)</u></b>	<b><u>(3,171,485)</u></b>	<b><u>(1,853,303,867)</u></b>
Charge for the year	(414,188)	(22,293,724)	(50,938,525)	(236,497)	-	(73,882,933)
<b>As of March 31, 2018</b>	<b><u>(26,315,015)</u></b>	<b><u>(22,335,386)</u></b>	<b><u>(1,868,128,840)</u></b>	<b><u>(7,236,074)</u></b>	<b><u>(3,171,485)</u></b>	<b><u>(1,927,186,800)</u></b>
<b>Net book value as of December 31, 2017</b>	<b><u>(26,729,203)</u></b>	<b><u>(44,629,110)</u></b>	<b><u>1,697,162,242</u></b>	<b><u>9,390,314</u></b>	<b><u>181,749,099</u></b>	<b><u>3,680,205,350</u></b>
<b>Net book value as of March 31, 2018</b>	<b><u>166,164,992</u></b>	<b><u>1,637,362,865</u></b>	<b><u>1,614,493,518</u></b>	<b><u>9,186,456</u></b>	<b><u>195,984,052</u></b>	<b><u>3,623,191,883</u></b>

\* ) Includes transfers from tangible assets in progress, transfers in/from intangible assets, reclassifications to other categories and other adjustments.

In 2017 Transfers and reclassifications\* in amount of RON 981.05 million represents the reverse of the accumulated depreciation at revaluation date for the buildings category against gross book value (GBV) of the revaluated assets.

### - Impairment

No additional depreciation was recorded in the first 3 months of year 2018 in 2017.



## **5. PROPERTY, PLANT AND EQUIPMENT (continued)**

### **- Construction in progress**

During the first quarter of 2018, the significant contribution to the total acquisitions of assets in progress is represented by the "HDPE Unit restart" project (around RON 5 million) and ISCIR projects within of the two refineries (approximately RON 2.8 million).

During the year 2017, the significant contribution to the total acquisitions of assets in progress is represented by the capital maintenance project "Refinery Planned Shutdown 2017" (about RON 80.2 million) carried out in order to ensure a high level of safety of the operating equipment and the ISCIR projects within of the two refineries (approximately RON 51.5 million). Besides these an important contribution is provided by "HDPE Unit restart; project (around RON 16.5 million) and tanks rehabilitation projects (around RON 20.3 million). Part of these projects have been transferred to the other property, plant and equipment categories.

In 2017 the main projects remaining in construction in progress refers to the Tank rehabilitation amounting to RON 30.3 million, ISCIR authorizations amounting to RON 31.7 million, HDPE Unit restart amounting to RON 16.5 million and Refinery specific optimization programs amounting to RON 53.3 million in respect of Rompetrol Rafinare SA. Regarding the HDPE plant, with the support and decision of the majority shareholder, the company started at the end of last year the mechanical and organizational works for bringing this plant to operation. At the time of preparation of the financial statements, the mechanical works are completed, the restarting technological tests being carried out at these times (March 2018). In the near future, depending on the appropriate market moment, the effective operational start of HDPE installation will take place. The net book value (NBV) of HDPE installation is in amount of RON 82.6 million at 31.12.2017.

### **- Disposal**

No asset disposals were recorded in the first quarter of 2018 and in year 2017.

### **- Capitalization of borrowing costs**

The Company finances its activities inclusively through loans and the cost of debt for the acquisition of assets is capitalized in the cost of the asset, when specific loans have been obtained (investment). In the year ended as at 31 December 2017 the interest was not capitalized.

### **- Revaluation of buildings category**

Starting December 31,2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A net gain from the revaluation of the Company's buildings category of RON 695.5 million was recognized in the building category.



## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

### Reconciliation of carrying amount

	<b>Buildings</b> <b>million RON</b>
<b><i>Carrying amount as at December 31, 2016*</i></b>	<b>939</b>
<i>Revaluation gain recognized due to change in accounting policy to revaluation model</i>	715
<i>Revaluation loss recognized</i>	(20)
<i>Depreciation for the year</i>	(54)
<i>Additions/Disposals/Transfers and reclassifications</i>	44
<b><i>Carrying amount and fair value as at 31 December 2017</i></b>	<b>1,625</b>

\*The Company changed the accounting policy with respect to the measurement of buildings category as at December 31, 2017 on a prospective basis. Therefore, the fair value of the of buildings category was not measured at December 31, 2016.

If the buildings category was measured using the cost model, the carrying amounts would be, as follows:

	<b>2017</b> <b>million RON</b>
Cost	1911
Accumulated depreciation and impairment	(981)
<b>Net carrying amount</b>	<b>930</b>

### - Fixed assets pledged

The company pledged assets net amounting to RON 1,145,209,153 (2017: RON 1,135,075,542), as follows:

- guarantees in favor of banks: RON 868,525,800 (2017: RON 864,851,354);
- guarantees in favor of ANAF: RON 276, 683,353 (2017: RON 270,224,188).

In 2010 it was established by ANAF a distraint on all fixed assets and investments and on the equity as well as on the shares, amounting to RON 1,595,020,055 in favor of the Romanian state (represented by ANAF). On these titles there was set up a rank 2 guarantee in favor of KMG International N.V.

On the guarantees in favor of ANAF, on September 10<sup>th</sup>, 2010, ANAF has established a distraint on the investments held by the Company in its subsidiaries and on the movable and immovable assets of the Company, except inventories. The distraint is based on article 129 of the Fiscal Procedure Code and the main result is that the Company cannot sell / transfer the assets under distraint.

According with the Memorandum of Understanding signed with the Romanian State and approved by Government Decision no. 35/2014, ANAF should remove and revoke the distraint established on 10 September 2010.

On 9 May 2016, Rompetrol Rafinare SA was notified that it was included as a civil responsible party in a file under investigation by DIICOT. Also, on the same date, the movable and immovable assets of Rompetrol Rafinare SA, as well as all the participations in companies across the country, were distrained.

On March 31<sup>st</sup>, 2018 no enforcement process has been made.

## 6. FINANCIAL ASSETS

	<b>31 March 2018</b>	<b>31 December 2017</b>
Investments in subsidiaries	1,629,020,055	1,629,020,055
<b>Total</b>	<b>1,629,020,055</b>	<b>1,629,020,055</b>

### Investments in subsidiaries

Details regarding subsidiaries at 31 March 2018 and 31 December 2017 are as follows:

	<b>Range of activity</b>	<b>Ownership at 31 March 2018</b>	<b>Ownership at 31 December 2017</b>	<b>Balance as at 31 March 2018</b>	<b>Balance as at 31 December 2017</b>
Rompotrol Downstream S.R.L.	Fuel sales	99,99%	99,99%	1,090,406,067	1,090,406,067
Rompotrol Petrochemicals S.R.L.	Petrochemicals	100,00%	100,00%	311,698,295	311,698,295
Rom Oil S.A.	Rental services	99,99%	99,99%	191,216,660	191,216,660
Rompotrol Logistics S.R.L.	Logistics operations	66,19%	66,19%	24,349,123	24,349,123
Rompotrol Quality Control S.R.L.	Quality Control Services for oil products	70,91%	70,91%	11,349,910	11,349,910
<b>Total of equity investments</b>				<b>1,629,020,055</b>	<b>1,629,020,055</b>

## 7. INVENTORIES, NET

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Crude oil and other feedstock materials	508,853,557	560,632,354
Finished products	271,303,251	294,460,794
Work in progress	116,673,460	127,069,512
Spare parts	52,149,209	52,960,693
Other consumables	21,438,837	21,541,544
Merchandises	1,245,917	1,254,210
Other inventories	3,502,367	3,543,028
Inventories reserve	(53,712,579)	(47,203,208)
<b>Total</b>	<b>921,454,019</b>	<b>1,014,258,927</b>

The inventories of finished goods comprise mainly petroleum products.

The movement of the provision for inventories in first 3 months of the year 2018 and in year 2017 is presented below:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Reserve at the beginning of the year</b>	<b>(47,203,208)</b>	<b>(44,103,284)</b>
Accrued provision	(8,001,928)	(29,951,519)
Write off	4,249	-
Reversal provision inventories reserve	1,488,308	26,851,595
<b>Reserve at the end of the period</b>	<b>(53,712,579)</b>	<b>(47,203,208)</b>

The provisions for inventories represent provisions for the net realizable value.

**8. TRADE AND OTHER RECEIVABLES, NET**

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Trade receivables	1,459,642,932	1,526,173,286
Advances to suppliers	10,372,086	11,392,740
Sundry debtors	33,695,875	26,811,309
VAT to be recovered	528,251	2,990,566
Other receivables	60,160,723	72,879,061
Reserve for bad and doubtful debts	<u>(76,043,806)</u>	<u>(62,619,691)</u>
<b>Total</b>	<u><b>1,488,356,061</b></u>	<u><b>1,577,627,271</b></u>

The balances with affiliated parties are presented in Note 22. The movement of provision is presented in Note 18.

The movement of adjustments for depreciation of trade receivables is as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
<b>Balance at the beginning of the year</b>	<u><b>(62,619,691)</b></u>	<u><b>(62,290,869)</b></u>
Impairment losses recognized on receivables	(13,833,258)	(2,081,781)
Impairment losses reversed	2,813	280,233
Translation differences	<u>406,330</u>	<u>1,472,726</u>
<b>Balance at the end of the period</b>	<u><b>(76,043,806)</b></u>	<u><b>(62,619,691)</b></u>

At 31 March 2018 the analysis of receivables maturity dates is as follows:

	Total	Neither past due not impaired	<u>Past due but not impaired</u>				
			1-30 days	30-60 days	60-90 days	90-120 days	>120 days
<b>31 March 2018</b>	1,404,015,307	975,954,827	131,982,802	508,494	759,500	1,736,537	293,073,147
<b>31 December 2017</b>	1,470,315,538	1,015,680,845	151,923,166	2,521,925	134,983	1,289,888	299,034,695

Trade receivables are not bearing interest and become mature at 30-90 days.

## 8. TRADE AND OTHER RECEIVABLES (continued)

At 31 March 2018, the trade receivables at the initial value of RON 55.63 million (2017 RON 55.86 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	<b>Collectively impaired</b>
<b>At January 1, 2017</b>	<b>(56,755,153)</b>
Value adjustments for impairment of receivables	(855,554)
Reversed provisions	280,233
Exchange rate difference	1,472,726
<b>At December 31, 2017</b>	<b>(55,857,748)</b>
Value adjustments for impairment of receivables	(179,020)
Reversed provisions	2,813
Exchange rate difference	406,330
<b>At March 31, 2018</b>	<b>(55,627,625)</b>

## 9. CASH AND CASH EQUIVALENTS

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Cash at bank	14,036,662	22,394,325
Cash on hand	5,785	7,605
Transitory amounts	-	3,940
Other cash equivalents	3,280	457,410
<b>Total</b>	<b>14,045,727</b>	<b>22,863,280</b>

Other treasury values represent in the greatest part checks to be cashed.

## 10. OWN CAPITALS

### 10.1 SHARE CAPITAL

As at 31 March 2018 and 31 December 2017, the share capital consists in 44,109,205,726 ordinary shares, authorized, wholly issued and paid up, with a nominal value of RON 0.1 per each share.

The shareholder structure at 31 March 2018 and 31 December 2017.

<b>Shareholders</b>	<b>Percent held (%)</b>	<b>Statutory amounts in [RON]</b>
KMG International N.V	48.11%	2,122,250,643
The Romanian State represented by The Ministry of Energy	44.70%	1,971,500,905
Rompetrol Financial Group S.R.L.	6.47%	285,408,308
Rompetrol Well Services S.A.	0.05%	2,198,030
Rompetrol Rafinare S.A.	0.01%	613,470
Others (not State or KMGI Group)	0.66%	28,949,217
<b>Total</b>	<b>100%</b>	<b>4,410,920,573</b>

The total value of the Company's share capital remained unchanged in the first quarter of year 2018 and in year 2017.

## **10. OWN CAPITALS (continued)**

Following the Extraordinary General Meeting of Shareholders of 30 June 2010, which approved the capital increase with up to RON 450 million, Rompetrol subscribed and paid a total of 3,294,914,165 shares (equivalent of USD 100,222,279), and minority shareholders have subscribed and paid a total number of 6,506 shares (USD 198). These shares have been registered with the Trade Register. The proceeds of the capital increase were used to partially redeem the bonds held by the Romanian state.

After the Extraordinary General Meeting of Shareholders on 30 September 2010, the Company converted remaining unredeemed bonds into shares in favor of the Romanian State, resulting a total of 19,715,009,053 shares amounting to RON 1,971,500,905 (USD 627,546,964).

Consequently, the Romanian state, through the Ministry of Finance owns 44.7% in the Company.

### **10.2 SHARE PREMIUM**

The share premium is the result of conversion of bonds into ordinary shares on 30 September 2010, in favor of the Romanian State, represented by the Ministry of Finance, by the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

### **10.3 REVALUATION RESERVES**

Starting December 31, 2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. The Company has changed its accounting policy to measure buildings category at the revalued amount in accordance with IAS 16. IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Company determined that the buildings category constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A gain from the revaluation of the Company's buildings category of RON 715.08 million was recognized in the Other Comprehensive Income (OCI).

Also the Company recognized in 2017 a debit balance of "Deferred tax" in amount of RON 114.4 million related to the temporary differences resulting from the revaluation surplus. Strictly for presentation purposes of the Financial Position (page 3) the Revaluation reserves balance is presented in net of RON 600.66 million, being affected by the deferred tax mentioned before. The debit balance of Deferred tax on the revaluation reserve in amount of RON 114.4 million was recognised in the OCI.

At 31 March 2018 the Revaluation reserves balance (presented in net of RON 590.63 million) is affected by the transfer to retained earnings of the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the assets included in the building category. In compliance with OMFP 2844/2016 and with the accounting policies adopted by the Company as of 31 December 2017 the revaluation surplus included in the revaluation reserves is capitalized by transferring it to retained earnings as the use of the asset or upon disposal of the asset, unless a transfer hasn't been already made during utilization period of the revaluated asset. Therefore at 31 March 2018 the revaluation surplus transferred to retained earnings is in amount of RON 10.3 million.



**10. OWN CAPITALS (continued)**

**10.4 OTHER RESERVES**

***Hybrid Loan***

The "Other reserves" item includes the value of the hybrid loan in amount of RON 3,449 million (USD 1,022 million)

In 2012, USD 800 million of the total outstanding balance of the loan payable to KMG International NV was converted into an unsecured hybrid loan, repayable after 51 years. During 2013, an additional USD 150 million were converted, the hybrid loan amounting to USD 950 million. The loan is unsecured, subordinated to any present and future liability of the company. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 15% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- the company records net profit after tax in the year
- the company will be able to distribute dividends as per the Romanian law requirements

The contract states that the interest rate mentioned above will be adjusted if the market conditions impose it, depending on the level of market interest existing at the time of the contract execution.

In 2017 an additional USD 72.2 million were transferred to hybrid loan by conversion of a debt held in front of KMG International NV. The additional loan is unsecured, repayable after 51 years and subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

- the company records net profit after tax in the year
- the company will be able to distribute dividends as per the Romanian law requirements

Also, in 2017 it was carried on and recognized a liability for the potential interest on the hybrid loan in amount of RON 57.2 million, based on the projected profitability of the business for the period remained until reimbursement of the hybrid loan.



**11. COMMERCIAL LIABILITIES AND OTHER LIABILITIES**

	<u><b>March 31, 2018</b></u>	<u><b>December 31, 2017</b></u>
Trade payables	2,792,674,111	3,281,800,731
Advances from customers	65,921,629	77,495,051
VAT payable	126,137,841	130,526,638
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,028)	(1,180)
Employees and social obligations	9,713,867	14,343,553
Other liabilities	552,940,153	449,441,653
<b>Total</b>	<u><b>3,574,947,205</b></u>	<u><b>3,981,167,078</b></u>

The Company has a cash pooling agreement in place in order to implement a cash balance optimization system, where KMG Rompetrol S.R.L. is "Coordinating Company", and the group companies are participating companies.

The cash pooling debt amounts to RON 526.33 million (2017: RON 410.71 million) and is recognised in "other debts".

## 12. SHORT-TERM LOANS

### Short-term loan from related parties:

	<u>31 March</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
<b>KMG International N.V.</b>	418,009,138	494,663,734
Short-term credit facility for working capital needs, amounting to a maximum of USD 250 million, USD 50 million due on December 31, 2018 and USD 200 million refunded upon request; guarantees: assignment of receivables, pledge on holdings in Rompetrol Logistics, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil; pledge on bank accounts. The undrawn amount as at December 31, 2017 is in amount of USD 139.35 million.		
<b>Rompetrol Well Services SA</b>	13,000,000	13,000,000
Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - April 10, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	7,000,000	7,000,000
Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - April 14, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	3,100,000	3,100,000
Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - May 3, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	11,200,000	11,200,000
Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - May 28, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Midia Marine Terminal SRL</b>	27,211,100	27,211,100
Short-term facility for working capital needs in amount of RON 27.211 million (through conversion of the loan in value of USD 7 million at NBR exchange rate communicated at July 31, 2017), maturity date December 31, 2018. The facility has been fully used.		
<b>Rompetrol Financial Group SRL</b>	115,000,000	115,000,000
Short-term facility for working capital needs in amount of USD 29.215 million, maturity date December 31, 2018. The facility has been fully used.		
Interest due	13,159,798	11,966,483
	<u>607,680,036</u>	<u>683,141,317</u>

## 12. SHORT-TERM LOANS (continued)

### Short-term loan from banks

	<u>31 March</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
<b>Bancpost</b>	116,533,686	31,530,791
Rompotrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m <sup>2</sup> ; assignment of rights from insurance compensation.		
<b>Bancpost</b>	33,703,045	-
Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 31 July 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS = EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.		
Interest due	291,251	271,981
	<u>150,527,982</u>	<u>31,802,772</u>
<b>Syndicated loan – through Unicredit Bank as payer agent</b>	<u>512,858,484</u>	<u>435,337,221</u>
<b>TOTAL</b>	<u>663,386,466</u>	<u>467,139,993</u>

All the financial covenants applicable were complied with as of March 31, 2018.

### 13. LONG-TERM LOANS

	<u>31 March</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
<b>Syndicated loan – through Unicredit Bank as payer agent</b>		
Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompotrol Rafinare, Rompotrol Downstream SRL, KazMunayGas Trading AG, KMG Rompotrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 2018. The following mortgages are set up to secure the loan: a) the credit balances of all current accounts present and future; b) the rights of insurance compensation; c) inventories (Propylene, Ethylene, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% of the debts assigned to notify the clients.	-	-

At 31 March 2018, respectively at the end of 2017 the long-term credit no longer records balance due to the reclassification of the amounts from the Syndicated loan in the short-term loan, taking into account that on 31.12.2017, respectively 31.03.2018 the maturity term (April 23, 2018) is less than 1 year.

The movement of loans in the first 3 months of year 2018 is presented below:

	<u>At January 01,</u> <u>2018</u>	<u>Movement</u>	<u>At March 31,</u> <u>2018</u>
Long-term borrowings from banks	-	-	-
Short-term borrowings from banks	466,868,013	196,227,202	663,095,215
Short-term borrowings from shareholders and related parties	671,174,834	(76,654,596)	594,520,238
<b>Total</b>	<b>1,138,042,847</b>	<b>119,572,606</b>	<b>1,257,615,453</b>
Interest short-term borrowings from banks	271,981	19,270	291,251
Interest short-term borrowings from shareholders and related parties	11,966,483	1,193,315	13,159,798
<b>Total</b>	<b>12,238,464</b>	<b>1,212,585</b>	<b>13,451,049</b>



#### 14. PROVISIONS

	<u>31 March 2018</u>	<u>31 December 2017</u>
Non - current provision	313,475,981	327,130,219
<b>Total</b>	<b>313,475,981</b>	<b>327,130,219</b>

The movement of the provisions is presented below:

	<u>As at January 1, 2018</u>	<u>Other comprehensive income</u>	<u>Arising during the year</u>	<u>Utilised</u>	<u>As at March 31, 2018</u>
Retirement benefit provision	32,064,985	-	-	-	32,064,985
Provision fiscal	13,654,238	-	(13,654,238)	-	-
Environmental provision	281,410,996	-	-	-	281,410,996
<b>Total</b>	<b>327,130,219</b>	<b>-</b>	<b>(13,654,238)</b>	<b>-</b>	<b>313,475,981</b>

The environmental provision for the Vega refinery in amount of RON 281.4 million represents obligations for cleaning of the oil sludge pools and restoration of contaminated land.

During 2012, an evaluation report was issued by an independent expert, evaluation report estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 5 year period, a discounted cash flow cost estimate of RON 272 million has been provided by the Company as of the end of 2016, for which the Company booked a provision.

An additional environmental provision for site restoration in amount of RON 9.06 million was recognised in 2017 for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. A discount factor of 4.38% (2016: 9.6%) was applied for the discounted cash flow calculation, leading to an increase in provision in 2017.

Currently, the prequalification stage is in progress and considering the further bidding process and final contract negotiation, works are expected to start during the second quarter of 2018.

Following the ending in December 2017 of the general fiscal audit initiated and performed by ANAF - DGAMC started in October 2016 referring to the fiscal period 2011- 2015, the Company booked a fiscal provision in amount of RON 13.65 million based on the findings and additional tax charges for the period concerned. In the first quarter of 2018 the fiscal provision was reversed, as a result of paying the additional tax charges imposed and a provision for impairment of receivables of the same amount was recognised.

**14. PROVISIONS (continued)**

Retirement obligations provision - Under the collective labor agreements in force, employees are entitled to certain benefits that are payable on retirement, if the employees are employed with the entities at the date of their retirement. These amounts are estimated as of the reporting date based on: the specific benefits provided in the agreement, the number of employees working within the company at date and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The charge for the year is included in the salaries expenses, respectively in the interest related to the profit and loss account,

It is estimated that there are no significant liabilities relating to the provisions that will arise in the next 12 months.

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 March 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**15. REVENUES**

	<u>January - March</u> <u>2018</u>	<u>January - March</u> <u>2017</u>
Gross revenues from the sale of finished oil products	4,184,813,175	3,120,820,779
Revenues from petroleum products trading	-	-
Revenues from petrochemicals trading	7,660,649	169,277
Revenues from other merchandise sales	415,472	7,086,213
Revenues from utilities sold	2,525,494	2,468,285
Revenues from the sale other products	261,711	571,550
Revenues from rents and other services	3,386,951	3,540,379
<b>Gross Revenues</b>	<b>4,199,063,452</b>	<b>3,134,656,482</b>
Less sales taxes	(868,696,787)	(776,740,537)
<b>Total</b>	<b><u>3,330,366,665</u></b>	<b><u>2,357,915,945</u></b>

**16. COST OF SALES**

	<u>January - March</u> <u>2018</u>	<u>January - March</u> <u>2017</u>
Crude oil and other raw materials	2,957,639,241	2,104,567,610
Consumables and other materials	17,857,654	16,149,120
Utilities	111,761,667	94,397,464
Staff costs	21,968,360	18,819,598
Transportation	25,177	17,273
Maintenance	27,558,183	21,167,333
Insurance	1,552,984	1,467,269
Environmental expenses	1,147,004	1,015,196
Other	11,469,774	11,480,342
<b>Cash production cost</b>	<b>3,150,980,044</b>	<b>2,269,081,204</b>
Depreciation and amortization	66,685,527	55,853,506
<b>Production costs</b>	<b>3,217,665,571</b>	<b>2,324,934,710</b>
Less: Change in inventories	25,312,196	(70,393,286)
Less: Own production of property, plant & equipment	(6,385)	(883,853)
Cost of petrochemicals trading	7,690,249	-
Cost of other merchandise sales	275,162	7,250,204
Cost of utilities sold	1,847,961	1,704,579
Realised (gains)/losses on derivatives	11,947,889	(3,076,309)
<b>Total</b>	<b><u>3,264,732,643</u></b>	<b><u>2,259,536,044</u></b>

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 March 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**17. SELLING, GENERAL AND ADMINISTRATIVE COSTS, INCLUDING LOGISTIC COSTS**

	<u>January - March</u> <u>2018</u>	<u>January - March</u> <u>2017</u>
Staff costs	6,862,112	5,673,718
Utilities	2,054,053	3,040,293
Transportation	11,219,782	8,970,242
Professional and consulting fees	18,294,596	13,986,065
Consumables	249,034	998,664
Marketing	68,466	235,294
Taxes	868,116	919,787
Communications	18,010	17,450
Insurance	431,445	559,413
IT related expenditures	1,360,224	1,410,040
Environmental expenses	1,621,253	1,962,315
Maintenance	3,731,470	3,531,856
Fees and penalties	4,283,077	3,955,163
Other expenses	6,437,226	5,365,715
<b>Costs before depreciation</b>	<b>57,498,864</b>	<b>50,626,017</b>
Depreciation and amortisation	7,797,002	10,681,432
<b>Total</b>	<b><u>65,295,866</u></b>	<b><u>61,307,449</u></b>

**18. OTHER OPERATING (INCOME) / EXPENSES, NET**

	<u>January - March</u> <u>2018</u>	<u>January - March</u> <u>2017</u>
Provision for receivables, expense	13,833,258	-
Provision for inventories and write-off, expense	8,001,930	7,903,903
Other expenses	54,450	320,109
<b>Other operating expenses</b>	<b><u>21,889,638</u></b>	<b><u>8,224,012</u></b>
Provision for receivables, income	(2,813)	-
Provision for inventories and write-off, income	(1,492,558)	-
Other provisions, income	(13,654,238)	-
Other income	(322,601)	-
<b>Other operating income</b>	<b><u>(15,472,209)</u></b>	<b><u>-</u></b>
<b>Total</b>	<b><u>6,417,428</u></b>	<b><u>8,224,012</u></b>



**19. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE**

	<u>January - March 2018</u>	<u>January - March 2017</u>
<b>Finance cost</b>		
Interest expense	6,039,844	3,168,086
Interest expense shareholders and related parties	12,366,571	20,699,807
Commission and other bank charges	17,562,372	14,882,855
	<u><b>35,968,787</b></u>	<u><b>38,750,747</b></u>
<b>Finance income</b>		
Interest income	(2,766,445)	(8,432,038)
Other financial income	(462,394)	(3,727)
	<u><b>(3,228,839)</b></u>	<u><b>(8,435,764)</b></u>
<b>Finance income/(cost) net</b>	<u><b>32,739,948</b></u>	<u><b>30,314,983</b></u>
Unrealized net foreign exchange losses/(gains)	(5,601,469)	(77,308,115)
Realized net foreign exchange losses/(gains)	(83,698,809)	50,294,393
<b>Foreign exchange (gain)/loss, net</b>	<u><b>(89,300,278)</b></u>	<u><b>(27,013,722)</b></u>
<b>Total</b>	<u><b>(56,560,330)</b></u>	<u><b>3,301,261</b></u>

**20. INCOME TAX**

The income tax rate was 16% in 2018 and 2017.

**DEFERRED TAX**

	<u>Balance at January 1, 2018</u>	<u>Charged to Profit &amp; loss</u>	<u>Charged to Equity</u>	<u>Balance at March 31, 2018</u>
<b>Temporary differences</b>				
<b>Asset/Liability</b>				
Property, plant and equipment	1.223.986.947	-	-	1.223.986.947
Provisions	(281.410.996)	-	-	(281.410.996)
Fiscal loss	(1.923.585.182)	-	-	(1.923.585.182)
<b>Total temporary differences</b>				
<b>(Asset)/Liability</b>	<u><b>(981.009.231)</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>(981.009.231)</b></u>
Property, plant and equipment	195.837.912	-	-	195.837.912
Provisions	(45.025.759)	-	-	(45.025.759)
Fiscal loss	(307.773.629)	-	-	(307.773.629)
<b>Deferred tax (assets)/liability</b>				
<b>recognised</b>	<u><b>(156.961.477)</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>(156.961.477)</b></u>

## **20. INCOME TAX (continued)**

### **Contingencies related to taxation**

The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appear to be subject to significantly less regulation and the company under review appears to have less practically safeguards than is customary in many countries.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements.

## **21. OPERATING SEGMENT INFORMATION**

### **Geographical segments**

All the production facilities of the Company are located in Romania. The following chart provides an analysis of the net turnover of the Company depending on the geographical market:

	<b>Q1 2018</b>	<b>Q1 2017</b>
Romania	1,386,039,666	1,277,223,726
Europe	1,876,110,669	1,010,929,898
Asia	68,216,329	47,340,368
America	-	22,421,953
<b>Total</b>	<b>3,330,366,665</b>	<b>2,357,915,945</b>

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 March 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**22. RELATED PARTIES**

The ultimate parent of the Company is the company "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan, entirely owned by the Kazakh State. The related parties and the nature of relationship is presented below:

<b>Name of the affiliated entity</b>	<b>Nature of the relation</b>
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V.
Rominerv S.R.L.	Company held by KMG International N.V.
KazMunayGas Trading AG	Company held by KMG International N.V.
Rompotrol Well Services S.A.	Company held by KMG International N.V.
Palplast S.A.	Company held by KMG International N.V.
Rompotrol Bulgaria JSC	Company held by KMG International N.V.
Intreprinderea Mixta Rompotrol Moldova SA	Company held by KMG International N.V.
Rompotrol Georgia LTD	Company held by KMG International N.V.
Midia Marine Terminal S.R.L.	Company held by KMG International N.V.
Rompotrol Financial Group S.R.L.	Company held by KMG International N.V.
Dyneff SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
KMG Rompotrol SRL	Company held by KMG International N.V.
Byron Shipping Ltd	Company held by KMG International N.V.
Byron Shipping S.R.L.	Company held by KMG International N.V.
Rompotrol Albania Wholesale Sh.A.	Company held by KMG International N.V. (in liquidation)
Rompotrol Ukraine LTD	Company held by KMG International N.V. (KMG International N.V. owns 50%)
Rominerv Valves Iaifo SRL	Company held by KMG International N.V.
KAZMUNAYGAS – Engineering LLP (former Rominerv Kazakhstan LLC)	Company held by KMG International N.V.
Uzina Termoelectrica Midia S.A.	Company held by KMG International N.V. (KMG International group holds: 43.42%)
Global Security System S.A.	Company held by KMG International N.V. (indirect ownership by KMG International N.V.: 51%)
Rompotrol Downstream S.R.L.	Company affiliated to the Company
Rompotrol Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Rompotrol Logistics S.R.L.	Company affiliated to the Company
Rompotrol Quality Control S.R.L.	Company affiliated to the Company
Rompotrol Gas S.R.L.	Company held by KMG International N.V.
Dyneff Espagna SLU	A company of Rompotrol France group, where KMG International N.V. owns 49%
DPPLN SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
TMP SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
Dyneff Gas Stations Network SL	A company of Rompotrol France group, where KMG International N.V. owns 49%
Rompotrol France SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
DYNEFF TRADING SL (former Bioneff SL)	A company of Rompotrol France group, where KMG International N.V. owns 49%
Agat Ltd	Company held by KMG International N.V. (indirect ownership by KMG International N.V.: 50%)
Rompotrol Albania Downstream Sh.A.	Company held by KMG International N.V. (in liquidation)
Rompotrol Albania Sh.A.	Company held by KMG International N.V. (in liquidation)
Rompotrol Distribution Albania Sh.A	Company held by KMG International N.V. (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V. (indirect ownership by KMG International N.V.: 51%)
Rompotrol Energy S.A	Company held by KMG International N.V. (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V.
EPPLN SAS	Company held by KMG International N.V. (indirect ownership by KMG International N.V.: 49%)
KazMunayGas Trading Singapore	Company held by KMG International N.V. (in liquidation)
KMG Rompotrol Services Center SRL (former Rompotrol Exploration & Production SRL)	Company held by KMG International N.V.
Rompotrol Drilling	Company held by KMG International N.V.
Benon Rompotrol LLC	Company held by KMG International N.V. (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Bio Advanced Energy SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
Bio Advanced Energy PROD SAS	A company of Rompotrol France group, where KMG International N.V. owns 49%
DP FOS SA	A company of Rompotrol France group, where KMG International N.V. owns 49%
SPR SA	A company of Rompotrol France group, where KMG International N.V. owns 49%

## 22. RELATED PARTIES (continued)

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Outstanding balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the exercise ended at 31 March 2018, the Company did not record any depreciation of the receivables referring to the amounts due to the related parties (2017: zero). This assessment is performed every year, by analyzing the financial position of the related party and the market in which it is carrying on its activity.

At 31 March 2018 and 31 December 2017, Rompetrol Rafinare had the following balances with the related parties:

	<b>Receivables and other assets</b>	
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
KazMunayGas Trading AG	688,828,014	658,908,913
Rompetrol Downstream S.R.L	478,467,706	586,070,373
Rompetrol Petrochemicals S.R.L.	1,660	1,657
KMG International N.V.	4,531,540	3,268,860
Rompetrol Gas SRL	8,556,498	10,047,709
Rompetrol Moldova ICS	17,785,814	-
Rompetrol Bulgaria JSC	130,125	3,111,148
Rominerv S.R.L.	466,980	3,672,459
Rompetrol Quality Control S.R.L.	135,594	129,968
Rompetrol Logistics S.R.L	3,083	48,853
Midia Marine Terminal S.R.L.	1,356,010	1,040,455
Uzina Termoelectrica Midia S.A.	8,659,776	8,467,191
KMG Rompetrol SRL	2,244,436	7,555,392
Global Security Systems S.A.	607,044	606,637
Kazmunaygas – Engineering LLP (former Rominerv Kazakhstan(RKZ))	635,318	654,422
Palplast S.A.	5,095,513	5,340,002
Byron Shipping Ltd.	4,118	3,924
Rompetrol Ukraina	14,306	14,736
Oilfield Exploration Business Solutions S.A.	2,124,243	1,932,419
Rompetrol Financial Group SRL	10,285	10,340
KMG Rompetrol Services Center SRL	48,596	50,516
TRG Petrol Ticaret Anonim Sirketi	15,225,540	10,521,367
<b>Total</b>	<b>1,234,932,199</b>	<b>1,301,457,341</b>



**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 March 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**22. RELATED PARTIES (continued)**

	<b>Payables, loans and other liabilities</b>	
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
KazMunayGas Trading AG	2,327,344,901	2,784,983,327
Rompetrol Downstream S.R.L.	53,990,139	43,115,612
Rompetrol Petrochemicals S.R.L.	7,688,125	7,685,137
KMG International N.V.- loans(note12)	418,009,138	494,663,734
KMG International N.V.-interest	3,346,449	1,830,480
KMG International N.V.-trade debts	12,850,236	13,976,078
Rompetrol Gas SRL	2,570,483	2,744,523
Rompetrol Moldova ICS	22,268,232	14,231,107
Rominerv S.R.L.	94,799,036	121,931,041
Rompetrol Quality Control S.R.L.	17,708,665	17,245,271
Rompetrol Logistics S.R.L.	349,207	905,223
Midia Marine Terminal S.R.L.- loans(note12)	27,211,100	27,211,100
Midia Marine Terminal S.R.L.-interest	5,121,811	4,896,117
Midia Marine Terminal S.R.L.-trade debts	151,951,875	142,234,826
Rompetrol Well Services S.A. - loans (note 12)	34,300,000	34,300,000
Uzina Termoelectrica Midia S.A.	15,658,033	14,154,735
KMG Rompetrol SRL- debt cash pooling	526,325,440	410,707,468
KMG Rompetrol SRL-interest cash pooling	1,697,315	1,328,165
KMG Rompetrol SRL-trade debts	13,695,380	32,002,902
Global Security Systems S.A.	621,973	1,406,484
Rompetrol Exploration & Production S.R.L.	66	66
Rompetrol Financial Group SRL - loans(note12)	115,000,000	115,000,000
Rompetrol Financial Group SRL-interest	4,691,537	5,239,886
KMG Rompetrol Services Center SRL	1,852,623	1,407,558
Rompetrol Bulgaria JSC	2,582	-
TRG Petrol Ticaret Anonim Sirketi	115,475	565
<b>Total</b>	<b>3,859,169,822</b>	<b>4,293,201,405</b>

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2018.

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 March 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**22. RELATED PARTIES (continued)**

In the first quarter of 2018, respectively in the first quarter of 2017, Rompetrol Rafinare had the following transactions with the related parties:

Name of related party	Nature of transaction , sales / purchases	Sales		Purchases	
		January - March 2018	January - March 2017	January - March 2018	January - March 2017
KazMunayGas Trading AG	Raw materials / Petroleum products	1,462,590,515	642,114,011	2,746,129,671	2,045,184,083
Rompelrol Downstream S.R.L.	Petroleum products, rent, utilities and other	914,818,648	909,992,830	658,403	689,658
Rompelrol Petrochemicals S.R.L.	Rent, utilities and other	4,194	4,071	-	-
KMG International N.V.	Loan interest, management services	-	-	6,325,181	8,671,266
Rompelrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	120,787,300	87,051,916	121,319	9,418
Rompelrol Moldova ICS	Sales intermediary services	154,555,755	157,026,473	-	-
Rompelrol Bulgaria JSC	Sales intermediary services	10,370,350	20,341,877	-	-
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	674,541	712,309	45,240,991	38,898,188
Rompelrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	337,986	367,063	5,766,467	6,356,980
Rompelrol Logistics S.R.L.	Transport, rent/Rent, utilities	4,123	3,405	41,081	36,516
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, reinvoicing, loan interest ,others	366,203	369,203	21,441,122	17,731,638
Rompelrol Well Services S.A.	Loan interest	-	-	432,085	329,251
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	20,928,507	21,880,026	35,127,340	33,953,651
KMG Rompetrol S.R.L.	Loan interest, management services	1,618,500	8,434,459	22,811,114	23,959,126
Global Security Systems S.A.	Security and protection services	341	378	2,649,532	2,418,580
Byron Shipping S.R.L.	Demurrage /Rent, reinvoices of other services	10,366	10,173	2,828	2,828
Rompelrol Financial Group SRL	Loan interest	-	-	1,451,651	-
KMG Rompetrol Services Center SRL	Shared services	122,718	135,639	3,893,881	3,883,399
TRG Petrol Ticaret Anonim Sirketi	Petroleum products	38,601,074	-	-	-
		<b>2,725,791,121</b>	<b>1,848,443,833</b>	<b>2,892,092,666</b>	<b>2,182,124,583</b>

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, based on a Government Ordinance, the Ministry of Economy Trade and Business Environment ("MECMA") became shareholder until May 2013 when, following the reorganization of MECMA, the Ministry of Economy ("ME") became the new shareholder. The ministry was later renamed as Ministry of Energy, Small- and Medium-sized Enterprises and Business Environment. Its current name is Ministry of Energy.

As a result MFPR, MECMA, ME and Other Authorities are considered to be a related party of the Group. There are no transactions, balance sheets at the year-end in relation with MFPR, MECMA, ME and other Romanian authorities during the time of their affiliation, other than those arising from Romanian fiscal and legislation requirements.

## 23. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	<u>January - March 2018</u>	<u>January - March 2017</u>
Net profit (+), loss (-)	50,481,057	25,547,176
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (ban/share)	0.11	0.06

## 24. CONTINGENT LIABILITIES

- a) Related to the Company's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed that Rompetrol Rafinare S.A. haven't recorded income, to which D.G.F.P Constanta applied excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Company based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 25). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is considered remote.
- b) In 2001, the Company processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Company were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Company cancelled such invoices. The Company is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Company liable for paying such excises; the Company appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P. Constanta is RON 9.5 million (USD 2.20 million). The management is confident that the likelihood of reversal of the earlier court decision is very little.
- c) The National Agency for Tax Administration started in October 2016 a general tax inspection covering the period 2011-2015 for: income tax, VAT fiscal group set up at the level of Rompetrol Rafinare S.A. (all entities from fiscal group were under fiscal control), withholding tax and excise.

Thorough the Assessment Decision (received in January 2018), there were imposed the following additional taxes: RON 26.1 million representing VAT fiscal group (out of which RON 13.1 million related to the entity Rompetrol Rafinare S.A.), withholding tax in amount of RON 6.5 million and decrease of fiscal loss with RON 144.4 million, both of the lasting related to the entity Rompetrol Rafinare S.A.. The accessories and penalties calculated to the additional charges, strictly related to the Company are in amount of RON 9 million. The principal additional taxes and related penalties were partially compensated with receivable taxes, the difference being paid in cash.

The tax assessment on VAT fiscal group was challenged on February 26, 2018. According to the Romanian Fiscal Procedure Code, the appeal shall be resolved within 45 days of the filing date. If the contestation is not solved within 6 months from the filing date, the contestant may address the competent administrative court for the annulment of the act. At the date of this financial statements the contestation is in progress to be solved.

In 2017, in respect of the above-mentioned tax inspection, a provision in amount of RON 13.65 million was booked in relation to Rompetrol Rafinare. In the first quarter of 2018 the fiscal provision was reversed as a result of paying the taxes imposed and a receivables provision with the same amount was recognized. (see notes 14 and 18).

## **25. LEGAL MATTERS**

### **Litigation with the State involving criminal charges**

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain current and former shareholders directors, managers and external censors of S.C. Rompetrol Rafinare S.A. ("RRC") and other individuals; 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, only one of the former director of the Company who is involved in the investigation, still works for KMG International Group.

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.

Considering the above-mentioned charges, a freezing order were issued by DIICOT and received on 9-10 May 2016 (the "Orders"), whereby it was decided to impose a seizure (freezing of the assets) on the movable and immovable assets of KMG International N.V., Rompetrol Rafinare SA and Oilfield Exploration Business Solutions SA (former Rompetrol SA) as well as over the shares these companies held in their Romanian subsidiaries.

The freezing of the assets does not impact the inventories, receivables and the bank account of Rompetrol Rafinare and this allows to the company to continue normally the day by day operations.

The companies submitted the challenges against the Orders within 3 days (namely on 12 and 13 of May 2016).

After two hearings in front of the Constanta Court, the case was assigned to be settled by the High Court of Justice and Cassation, who rejected in full the challenging submitted by Group's subsidiaries.

Meanwhile, the companies also challenged on May 30, 2016 the Orders to the superior prosecutor. The submission was rejected in December 2016.

Considering the nature of the allegations submitted by DIICOT, the KMG companies applied for a motion of disjoining (*cerere de disjungere* in Romanian) in order to have two different cases which shall settle the allegations for RRC' privatization and post-privatization period – one file and a second one for the allegations related to the issuance of the bonds by RRC (OUG 118/2003). No reply received yet from DIICOT on this topic.

Since the KMG companies had no capacity in the file till 2016 and it seems the entire process (with minor exceptions) of gathering the evidences by DIICOT have been performed before May 2016, the Companies submitted on April 7, 2017 their own application for, on the one hand, evidences to be attached to the file in order to defend and on the other hand to be redone some evidences (such as expertise report) performed before 2016. No reply received yet from DIICOT on this topic.



## **25. LEGAL MATTERS (continued)**

On April 12, 2017, the companies submitted also their application by which they asked the dismissals of the allegations regarding the OUG 248/200 (regarding the privatization of RRC) and OUG 118/2003 (the issuance of bonds) taking into consideration the recent Constitutional Court decision no. 68/2017 by which the Court settled that the legislative process, as well as the aspects regarding the opportunity and/or lawfulness of a deed issued either by the Parliament and Government cannot be subject of a criminal inquiry and the Constitution provides other leverages assigned to other public authorities to control such kind of things. No reply received yet from DIICOT on this topic.

On May 10 and June 28, 2017, the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivables, RRC privatization and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), intra-companies transactions and budgetary taxes and duties.

On July 17, 2017 DIICOT issued an Ordinance which generally keeps the approach of the Orders issued in 2016 but let the civil parties namely, Ministry of Energy and Ministry of Finance, to provide the figures for the alleged damage they incurred as well as the evidences for supporting any alleged damage. The only alleged damage party which requested the alleged damage is Faber Invest & Trade, by its legal representative, for an amount of USD 96.6 million.

A statement of defence against the July 2017 Ordinance has been submitted on December 22, 2017 as well a challenge against it submitted in front of the higher prosecutor on September 29, 2017.

On April 12, 2018 DIICOT issued an Ordinance which cancelled the previous Ordinances dated July 17, 2017, September 18, 2017 and December 6, 2017 issued by the in-charge prosecutor of the file by which it was an extension of the inquiry to various individuals and/or some of the criminal offences have been approached in a worse manner for some of the defendants. Considering that those 3 ordinances cancelled have as background the April 2016 Ordinance issued by in-charge prosecutor by which the freezing orders were imposed over the assets of KMGI, the Group companies KMG International N.V., RRC, OEBS have submitted on April 20, 2018 a new challenge in front of the High Court of Cassation and Justice for lifting the seizure. The court solution is expected on May 22, 2018.

A similar challenge against the freezing orders will to DIICOT to be settled either by the new prosecutor in-charge with the file or by the superior.

On July 22, 2016 NC KMG and KMGI submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty.

The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. Should a settlement between KMGI and Romania fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank, headquartered in Washington, D.C or to the Arbitration Institute of the Stockholm Chamber of Commerce, in line with the provisions of the treaties and with KMG companies' envisaged reliefs and measures to be obtained.

### **Litigation on Tax Assessments received by Rompetrol Rafinare S.A. in 2012**

In March 2012, the National Agency for Tax Administration issued to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million, out of which half represents additional principal tax liabilities and the other half represents late payment interest and penalties.

## **25. LEGAL MATTERS (continued)**

Both the Report and the Decision were challenged subject to a prior administrative appeal.

The main arguments put forward by Rompetrol Rafinare for its administrative appeal were: it had used and benefitted from the management and advertising service referred to; it has related justifying documents that were not taken into consideration by the tax authorities; and the Tax authorities did not consider the definition provided by the Fiscal Code and its Application Norms, as well as, applicable, Double Tax Treaties and Commentaries to the OECD model conventions as regards definition of royalties versus services.

Although Rompetrol Rafinare considers that it has met all technical requirements and it is challenging all the items included in the report issued by the National Agency for Tax Administration, there is a chance that Rompetrol Rafinare may not recover the amount in whole or part, based on the high ambiguity in respect of the legislation and the court practice in a similar case in Romania. Therefore, a provision has been recognized for an overall amount of USD 15 million, out of which USD 11 million was expensed during 2012.

The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27<sup>th</sup> of October 2014 by Constanta Court of Appeal which partially annulled both Decision no. 33 and the Assessment Decision for payment of RON 48 million. (equivalent USD 14.1 million).

Constanta Court of Appeal held liable the National Agency for Tax Administration for paying back Rompetrol Rafinare approximately RON 21 million (equivalent USD 6.2 million) and to pursue to audit again for approximately RON 9.7 million (equivalent of USD 2.8 million).

This Decision was appealed by both Rompetrol Rafinare and National Agency for Tax Administration in front of the High Court of Cassation and Justice of Justice. On October 12, 2017, the High Court of Cassation and Justice has rejected both appeals, so the decision of the first instance remained unchanged.

After rejection of both appeals by the High Court of Cassation and Justice on October 12, 2017, the Decision of Constanta Court of Appeal has remained definitive, so Rompetrol Rafinare SA has recovered from National Agency for Tax Administration the amount of approximately RON 21 million (equivalent of USD 6,2 million).

The re-audit for approximately RON 9.7 million (equivalent of USD 2.8 million) initiated in February 2018 was completed in March 22, 2018 and another tax inspection team maintained the initial decision of National Agency for Tax Administration for this amount.

The company will challenge tax decision for the amount of approximately RON 9.7 million.

In conclusion, from the total amount of RON 48 million (approx. USD 15 million) paid to National Agency for Tax Administration, the company recovered the amount of approximately RON 21 million (USD 6.2 million), and will contest to recover the amount of 9.7 mil RON (approximately USD 2.8 million).

### **Litigation regarding CO2 emission allowances.**

On February 28, 2011 Rompetrol Rafinare S.A. won a court case against The Romanian Government and The Ministry of Environment which required the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2,577,938 CO2 emission certificates for the entire period 2008-2012. This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian Government, but the appeals were rejected by the High Court of Cassation and Justice of Justice on October 30, 2012 and the first court decision became final.

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020. The market value for a CO2 emission certificate was EUR 5.4 per certificate as of December 2016.

**25. LEGAL MATTERS (continued)**

1. Considering that the Ministry of Environment and the Romanian Government did not fulfill with the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of EUR 36 million. – File no. 917/36/2013

On April 24, 2014, the court rejected the Rompetrol's claim on a reason that "is lack of object". Rompetrol appealed the Decision in front of the High Court of Cassation and Justice. The first hearing is set by the High Court of Cassation and Justice for June 3<sup>rd</sup>, 2016. Last hearing was on 21.10.2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment and send the cause to the same first instance (Constanta Court of Appeal) for retrial. First hearing for retrial was set on September 7, 2017. At this hearing term, Rompetrol Rafinare has been made a request for changing the judge of the case, since he was the one who has solved the case in 2013 and has decided once on the merits of this cause. The term for settlement of the Rompetrol Rafinare request was established on September 14, 2017. The judge has been changed and a hearing term was established for October 23, 2017. On October 11<sup>th</sup>, 2017, the court joined this file with File no. 712/36/2015 (see below), and established the same term for October 23, 2017. Next term was established on May 14, 2018.

2. Additionally, Rompetrol Rafinare launched a new legal enforcement procedure in front of the Constanta Court of Appeal, based on some new and much clearer provisions of law. File no. 726/36/2014 at Constanta Court of Appeal.

On July 6, 2015 Constanta Court of Appeal admitted partially the claim and fined the representative of the Government and Ministry of Environment for non-performance of the enforcement of the decision by which the Company received a number of 2.577.940 CO2 emission certificates. The decision is subject to appeal. On February 14, 2018, the High Court of Cassation and Justice rejected the appeal filed by Ministry of Environment as being lack of interest.

As a consequence, on July 28<sup>th</sup>, 2015 the Government Decision no. 611/2015 was issued, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 and increasing the allocation of the Company with the amount of 2.577.940 CO2 emission certificates; this decision should have been fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The Government Decision has still not been implemented.

3. On October 27<sup>th</sup> 2015, in order to secure all its rights and the full enforcement of the above mentioned court and government decisions, Rompetrol Rafinare filed a last court enforcement procedure (File no. 712/36/2015 at Constanta Court of Appeal), having as object to oblige the defendants to pay the counter value of the 2.577.940 CO2 emission certificates (i.e. 40 million Euro in total) in case they will fail to implement in due time the initial and final court decision and the Government Decision no. 611/2015. On February 3<sup>rd</sup> 2016, the Constanta Court of Appeal decided to postpone the procedure until the High Court of Cassation and Justice will pronounce a decision in another related case (Case file no. 917/36/2013),

Rompetrol Rafinare requested the resetting the cause of pending (File no. 712/36/2015), and the first hearing took place in the Constanta Court of Appeal on April 6<sup>th</sup>, 2016. At this hearing term, Rompetrol Rafinare request to reset the cause of pending was dismissed. Following the finalization of the case file no. 917/36/2013 by a decision dated October 21<sup>st</sup>, 2016, a new reopening request was submitted in Case file no. 712/36/2015, which was examined on January 11, 2017, when Rompetrol Rafinare request to reset the cause of pending was also dismissed. The request for reopening the case 712/36/2015 was finally admitted, and the next hearing term was established for October 11<sup>th</sup>, 2017.

At this hearing term, the court joined this file with File no. 917/36/2013 and established the same term for October 23, 2017. Since now, this file is joined to file 917/36/2013 with the same hearing terms (see above).



**25. LEGAL MATTERS (continued)**

**Litigation between Rompetrol Rafinare and Navodari City Hall**

On November 19<sup>th</sup>, 2015, it was finalized the local taxes fiscal audit of the local taxes, performed by Navodari City Hall, for the period of 2012-2014. The only non-compliant finding refers to revaluation of buildings made by the company on December 31, 2009 and December 31, 2011, namely that not all fixed assets accounted for in the account 212 "Construction" were revalued, and therefore it was not in accordance with the accounting regulations stipulated by OMFP 3055/2009. As a result, the inspection team considered that for year 2012, certain buildings were not revalued within three years of the previous revaluation and applied a higher local tax rate of 10% for the buildings, and as a consequence assessed an additional tax on buildings and related penalties in total amount of 20.4 mil RON, out of which the principal is RON 11.2 million and the penalties and accessories are RON 9.2 million (calculated until the date of the report).

- a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16<sup>th</sup>, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the High Court of Cassation and Justice shall be scheduled later.
- b) Because the decision issued by Navodari City Hall of rejection the administrative complaint as being lack of object is based on Navodari Local Council Decision no.435/December 21, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties, Rompetrol Rafinare submitted a second action for partial annulment of Navodari Local Council Decision no. 435/December 21<sup>st</sup>, 2015. This action was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term was set on January 16<sup>th</sup>, 2017, when the appeal was rejected. The solution is final.
- c) Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defence was submitted by Navodari City Hall and the first hearing term was established for February 22<sup>nd</sup>, 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19<sup>th</sup>, 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the High Court of Cassation and Justice of Justice. The first hearing term before the High Court of Cassation and Justice was not yet scheduled.

**Litigations between Rompetrol Rafinare and National Company – Constanta Maritime Port Administration S.A.**

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta (*National Company of Constanta Maritime Ports Administration*) of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the assurance of safe access and operation, the company initiated several legal remedies against it, as follows:



**25. LEGAL MATTERS (continued)**

a) Complaint against National Company "Administratia Porturilor Maritime " SA for violating the provisions of art. 9 of the Law no 21/1996 which caused to Rompetrol Rafinare SA damages consisting of USD 1.87 million - dredging expenditures; USD 3.3 million - commercial loss; the complaint is in course of analysis at the Competition Council. By means of the lodged complaint, the Competition Council was asked to acknowledge the violation by Administratia Porturilor Maritime of the provisions of art. 9 of Law no. 21/1996, to sanction the said company in accordance with the law and to render it liable to perform, subject to legal terms and conditions, inclusively in terms of cost incurrence, the obligations resting upon it as administrator of port areas and of supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port.

b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (USD 0.85 million) and for restitution of dredging expenses (1.7 mil USD). The total amount in RON is today RON 10 million (USD 2.6 million). The case is pending on Constanta Tribunal, with next hearing for May 19<sup>th</sup>, 2017. At this date, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff: a) The equivalent in lei, at the exchange rate euro/leu , fixed by the National Bank of Romania, on the day of payment, the amount of EUR 1.57 million representing dredging expenditures paid by Rompetrol Rafinare SA , during the period 30 April 2015 - 11 May 2015 ; b) The amount of 78.67 thousand lei - legal costs (of which 73.17 thousand lei - judicial stamp duties and 5,500 lei - the fees of experts and dismissals). Both parties filled for appeal against the solution pronounced by first court. On December 27, 2017, Constanta Court of Appeal admitted the appeal filed by Constanta Port Administration, reject the appeal filed by Rompetrol Rafinare SA and changed all the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal. The decision is not communicated yet.

**Procedure in which is involved Rompetrol Rafinare SA, Rominserv SRL, and employees of the two companies, following of a technical incident occurred in of Petromidia refinery on August 22, 2016**

On August 22, 2016, a technical incident occurred within the DAV plant. Following the event, two persons, employees of a Group' subsidiary Rominserv SRL suffered burns and two persons passed away. The competent authorities have initiated investigations in order to establish the circumstances and the causes that generated the technical incident. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and opened file no. 586 / P / 2016, within which have been questioned employees of the 2 companies and was administered technical expertise. Following the completion of the criminal prosecution, Rompetrol Rafinare S.A., Rominserv SRL and four employees of the two companies were put on trial for: the non-observance of the legal labour health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party.

By the final conclusion of Preliminary Chamber procedure, no. 328 / 03.21.207 communicated to Rompetrol Rafinare on March 27, 2017 the court ordering, considering the fact that the prosecutor did not reply within procedural five days, to return the case to the Prosecutor's Office Court Appeal Constanta, finding relative nullity of the Ordinance no. 586 / P / 29.11.2016, irregularity of the indictment 586 / P / 12.7.2016 prosecutor failure to respond within procedural terms. The solution can be appealed within three days from the communication of the final solution of the preliminary chamber. The Prosecutor's Office Court Appeal Constanta made appeal.

## **25. LEGAL MATTERS (continued)**

On June 21, 2017, the Constanta County Court admitted the prosecutor's appeal, and ordered the retrial of the case by Constanta Court with the observance of the legal dispositions on the summoning of the parties, namely the aggrieved persons and prosecutor. According with court decision of September 29, 2017, the file shall be sent back to the prosecutor office whereas it has been ascertained that ordinance no. 586/P/2016 of 29.11.2016 and the subsequent Act of Indictment no. 586/P/2016 din 07.12.2016 of the Prosecutor's Office by Constanta Court of Appeal are subject to relative nullity and that the object and limits of judgment cannot be established. The solution has been challenged by Prosecutor's Office, the contestation was rejected, and the criminal file shall be sent back to the prosecutor's office of Constanta in order to resume the criminal prosecution activities within the limits of the legality provisions.

On the other hand, it was admitted the request filed by Rominserv for the plea of unconstitutionality of certain provisions to be settled further by the Constitutional Court. The respective provisions concern the possibility to rectify the document instituting court proceedings during the preliminary chamber procedure.

Considering the allegations, each company is facing, a maximum exposure of approximately RON 3.6 million.

Also, on May 25, 2017 Rompetrol Rafinare and Rominserv received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. On August 16<sup>th</sup>, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labor Inspectorate (in cumulated amount of RON 0.028 million). The minutes of the fine have been appealed by both parties involved. On December 14, 2017, the court has requested to Rompetrol Rafinare and to the Territorial Labour Inspectorate to send written specifications regarding optional suspension of the case, pending resolution of the criminal file. In the RRC file the Court suspended the case until the criminal file will be solved. In RIS file the court request supplementary information from Prosecutor's Office by Constanta Court of Appeal. We did not receive any feedback in this respect.

### **Other litigations**

#### **Vega residual pools remediation project**

On November 15, 2017, Environmental National Guard (ENG) performed an inspection at Vega Refinery in order to determine the status of implementation of the Remedial Project.

Following the inspection, the Assessment Note no. 299 was issued, specifying that:

- on the same day the Company had to provide written information on the status of implementation of the Project;
- ENG would inform Prahova Environment Protection Agency (PEPA) immediately of Company's failure to comply with its obligations specified in the Environmental Integrated Authorization;
- a fine of 100.000 lei would be applied for Company's failure to send a notice to PEPA with respect to the commencement of the remedial works and to the identity of the contractor appointed in the Project (by submitting a copy of the contract concluded therewith), including for the failure to perform the works described in the remedial project and to comply with the deadlines specified in relation thereto.

On November 21, 2017, PEPA transmitted the Notice no. 149, informing that the Company must comply with the provisions of Integrated Environmental Authorization (EIA) until December 21, 2017 (related to the execution of residual pools remediation project), otherwise the EIA would be suspended until remedial of Company's failure, but, in any case, no longer than 6 (six) months, after which the EIA would be cancelled.

Against the documents received from environmental authorities, the company has brought actions in court as follows:

**25. LEGAL MATTERS (continued)**

- a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14, 2017. The ENG point of view was received on January 17<sup>th</sup> 2018;
- b) Preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017; the legal response time, according to the contentious law is 30 days;
- c) Suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; On February 5<sup>th</sup> 2018 the Constanta court has accepted the request for suspension of the Prior Notice no. 149/21.11.2017 and suspended the effects of prior notification until the request for annulment brought against the same administrative act will be solved; to be mentioned that in according with contentious law, the request for annulment of the Prior Notice was registered at the court on April 3<sup>rd</sup> 2018.
- d) Complaint against the fine received from ENG, submitted to the Ploiesti court on November 29, 2017; the court reject the complaint. It is expected the court solution which will be challenged.

On December 20, 2017 the Company submitted to the PEPA notice for initiation of the project works (phase I- construction) and on December 21, 2017 a correspondence with details regarding the company which will execute the construction works. On January 17<sup>th</sup> 2018 a detail plan activity for first stage of the project (preparation activities) was sent to the PEPA.

Up to this date no written confirmation was received from the environmental authorities regarding compliance of the company with the obligations mentioned in the EIA, related the execution of the remediation project.

**26. COMMITMENTS**

**Environmental commitments**

The principal activity of Rompetrol Rafinare SA (including Vega Refinery) of refinery petroleum products by its specificity might have direct or indirect effects on the environment in terms of effluents into land, water and air. The potential environmental effects of the Company's activities are monitored by specialized authorities and the management of the Company.

As of March 31, 2018 and 31 December 2017 Rompetrol Rafinare SA has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega refinery obligations, which have been provisioned.

At the end of March 2018 Rompetrol Rafinare SA has achieved the annual compliance with greenhouse gas (CO<sub>2</sub>) emission regulations by returning a number of CO<sub>2</sub> certificates equivalent to the emission of 2017.

At the end of April 2018 Rompetrol Rafinare SA has signed a framework agreement with Vertis Environmental Finance Ltd. in order to make a repo transaction of 120,000 CO<sub>2</sub> certificates with buy back on March 2019.

## **27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS**

### **A. CAPITAL RISK**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of bank debt and shareholder loans (see Notes 11 and 12), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the "Statement of Changes in the Shareholders' Equity".

### **B. GEARING RATIO**

The debt – to - equity ratio at the end of the year is as follows:

	<u><b>31 March 2018</b></u>	<u><b>31 December 2017</b></u>
Borrowings maturing in over one year	57,155,251	57,155,251
Own capitals	2,628,801,416	2,579,458,450
Gearing ratio	2.17%	2.22%

### **C. FINANCIAL INSTRUMENTS**

The estimated fair values of these instruments approximate their carrying amounts.

	<u><b>31 March 2018</b></u>	<u><b>31 December 2017</b></u>
<b>Financial assets</b>		
Trade receivables and other receivables	1,417,295,001	1,490,364,904
Derivatives	-	-
Cash and bank accounts	14,045,727	22,863,280
<b>TOTAL FINANCIAL ASSETS</b>	<u><b>1,431,340,728</b></u>	<u><b>1,513,228,184</b></u>
<b>Financial liabilities</b>		
Short term borrowings from shareholders and related parties	607,680,036	683,141,317
Derivatives	1,653,847	515,760
Commercial liabilities and other liabilities	3,351,177,322	3,741,224,899
Short term loans	663,386,466	467,139,993
Hybrid instrument - long-term portion	57,155,251	57,155,251
<b>TOTAL FINANCIAL LIABILITIES</b>	<u><b>4,681,052,922</b></u>	<u><b>4,949,177,221</b></u>



## **27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)**

Trade and other receivables are at net recoverable value and the following categories are not considered as financial assets:

- Advances paid to the suppliers;
- VAT to be recovered
- Profit tax to be recovered
- Other taxes to be recovered

Similarly, for trade and other payables the following are not considered as financial liabilities:

- Advances paid from customers;
- Excises taxes
- Special fund for oil products (FSPP);
- VAT payable
- Profit tax payable
- Salary taxes payable
- Other taxes
- Deferred revenues

The estimated fair values of these instruments approximate their carrying amounts.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Company enters into derivative financial instruments with various counterparties. As at 31 December 2017, the marked to market value of derivative position is for financial instruments recognised at fair value.

### **Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)**

	<u>31 March 2018</u>	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Trade receivables and other receivables	1,417,295,001	1,417,295,001	-	-
Cash and bank accounts	14,045,727	14,045,727	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,431,340,728</b>	<b>1,431,340,728</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	607,680,036	607,680,036	-	-
Derivatives	1,653,847	-	1,653,847	-
Commercial liabilities and other liabilities	3,351,177,322	3,351,177,322	-	-
Short term loans	663,386,466	663,386,466	-	-
Hybrid instrument - long-term portion	57,155,251	-	57,155,251	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,681,052,922</b>	<b>4,622,243,824</b>	<b>58,809,098</b>	<b>-</b>

	<u>31 December 2017</u>	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Trade receivables and other receivables	1,490,364,904	1,490,364,904	-	-
Cash and bank accounts	22,863,280	22,863,280	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,513,228,184</b>	<b>1,513,228,184</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	683,141,317	683,141,317	-	-
Derivatives	515,760	-	515,760	-
Commercial liabilities and other liabilities	3,741,224,899	3,741,224,899	-	-
Short term loans	467,139,993	467,139,993	-	-
Long term borrowings from banks	-	-	-	-
Hybrid instrument - long-term portion	57,155,251	-	57,155,251	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,949,177,221</b>	<b>4,891,506,210</b>	<b>57,671,011</b>	<b>-</b>

At 31 March 2018 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements

## **27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)**

### **D. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company uses different commodity derivatives as a part of price risk management in trading of crude oil and products. Generally the instruments are allocated to individual instruments.

It also performs hedging transactions regarding the risk of increasing USD interest rates.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognized in profit or loss as they arise.

### **E. MARKET RISK**

The Company'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 Company's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Company.

### **F. FOREIGN CURRENCY RISK MANAGEMENT**

For the purpose of preparing these Financial Statements, in accordance with the requirements of the Romanian law, the Company's functional currency is the Romanian leu (RON).

Crude oil imports, loans and a significant part of petroleum products are all denominated principally in US Dollars. Therefore, in respect of liabilities the Company is exposed to the risk of US dollar appreciation to the detriment of local currency, while in respect of foreign currency receivables, exposure arises in the context of depreciation of US dollar currency. Moreover, certain assets and liabilities are denominated in foreign currencies, which are retranslated 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. Company Treasury is responsible for handling the Company foreign currency transactions.

### **G. FOREIGN CURRENCY SENSITIVITY ANALYSIS**

The Company is mainly exposed to the USD and EUR fluctuation risk.

The following table details the Company's sensitivity to a 5% increase and decrease in the RON exchange rate against the relevant foreign currencies. The sensitivity analysis includes only the foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in the exchange rates. A positive number below indicates an increase in profit and other equity here generated by a positive exchange rate course of 5%. For a 5% weakening of the RON against the main currencies, there would be a negative impact in the profit, with the same value.

	USD		EUR	
	<u>31 March 2018</u>	<u>31 December 2017</u>	<u>31 March 2018</u>	<u>31 December 2017</u>
RON				
5%	(156,923,996)	(162,621,086)	3,725,607	4,110,054
-5%	156,923,996	162,621,086	(3,725,607)	(4,110,054)

## **27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)**

### **H. INTEREST RATE RISK MANAGEMENT**

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Company to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Company's borrowings, are provided in Note 12.

The sensitivity analyses below have been determined based on the financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If the interest rates had varied by + / - 50 points and all the other variables had remained constant, the net result of the Company as at 31 March 2018 would increase / decrease by RON 15.3 million (2017: increase / decrease by RON 15.9 million).

### **I. OIL PRODUCTS and RAW MATERIAL PRICE RISK**

The Company is affected by the volatility of crude oil, oil product and refinery margin prices.

The operating activities of the Company require ongoing purchase of crude oil to be used in its production as well as for the supply of petroleum products to its customers. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Company'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 Company started on January 2011 to hedge commodities held by Rompetrol Rafinare.

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock) is hedged using future contracts traded on ICE Exchange and some OTC instruments for the secondary risks. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Company, hence price fluctuations will not affect the cash-flow. In 2012, the Company started a few transactions of refinery margin hedge.

Risk management activities are separated into physical (purchase of raw materials 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 Company sells or buys the equivalent number of future contracts. This financial trade is done only to hedge the risk of the price risk and not to gain from the trading of these instruments.

### **J. CREDIT RISK**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or purchase contracts, which leads to a financial loss. The Company 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**

Outstanding 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 aging.

#### **Financial instruments and bank deposits**

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



**28. SUBSEQUENT EVENTS**

Rompetrol Rafinare S.A credit facility in amount of RON 7 million granted by Rompetrol Well Services S.A was prolonged until June 14, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was prolonged until June 10, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was prolonged until July 3, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 11.2 million granted by Rompetrol Well Services S.A was prolonged until May 28, 2018.

The Up to USD 360 Million credit facility (Syndicated Loan) concluded through Unicredit Bank AG, London Branch as facility agent, was extened until April 23, 2021 with two options for prolongation by 1 (one) year, each options could be applied in 2019 and 2020 (hence the period is of 3 years + 1 year + 1 year, making possible the availability of this facility until 2023).