

**rompetrol**KazMunayGas
Group
Member

ROMPETROL RAFINARE S.A.

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ANNUAL REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE FINANCIAL YEAR 2017

2017 figures include consolidated financial statements in accordance with International Financial Reporting Standards („IFRS”). Consolidated financial statements of Rompetrol Rafinare Group include the results of the parent company Rompetrol Rafinare and its subsidiaries Rompetrol Petrochemicals S.R.L., Rom Oil S.A., Rompetrol Downstream S.R.L., Rompetrol Quality Control S.R.L and Rompetrol Logistics S.R.L. (with its subsidiary Rompetrol Gas S.R.L.).

COMPANY HISTORY

Rompetrol Rafinare owns the main refining facility of the Rompetrol Group (renamed "KMG International" in 2014) located in Navodari, Constanta. Starting with December 1, 2007, the company also operates Vega refinery, located in Ploiesti. "Complexul Petrochimic Midia Navodari" (the former name of Rompetrol Rafinare S.A.) was part of the large oil refining plants which appeared after 1975. The plant was designed between 1975 and 1977. In 1991, Combinatul Petrochimic Midia Navodari became a joint stock company, by taking over all the assets of the former unit. In February 2001, as a result of the privatization of the company by the State Ownership Fund, KMG International NV became the main shareholder. In 2003, by Decision no. 50640 of Trade Registry Directorate, based on the General Shareholders' Meeting as of February 20, 2003, the company was renamed S.C. Rompetrol Rafinare S.A. The company processes a variety of crude oils with different content of sulfur, reaching an average percent of 1.26% sulfur. The crude oil feeding (more than 98%) is carried out mainly through the marine terminal built by the KMG International Group, close to Petromidia Refinery, and the rest is carried out through Oil Terminal facilities in Constanta port. The products obtained can be delivered by railway, road and by sea.

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

In 2012 Rompetrol Rafinare SA completed the extensive process of modernization that allowed expanding refining capacity to 5 million tonnes/year and efficient production and focus on the petroleum products required by the market.

Following the significant investments made by the KMG International Group and KazMunayGas in modernizing and increasing the processing capacity, optimization of production processes and increase energy efficiency, Rompetrol Rafinare has recorded historical records on the operational side since 2014.

The improved operating results and achievement in 2017 by the Petromidia and Vega refineries of historical processing records were sustained by completion in 2012 of the extensive modernization program and increase in the processing capacity to 5 million tonnes per year, and technological work carried out both in turnaround during March-April 2013 and in also in general turnaround (conducted in October 2015) that takes place every five years.

English translation is for information purposes only. Romanian language text is the official text for submission.

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COMPANY SHARES AND LISTING

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

The Company's shares are traded on BVB Standard category. On 31.12.2017, the total number of shares issued by the Issuer is 44,109,205,726, representing a total share capital of 4,410,920,572.6 lei. The Company's shares are common, nominative, dematerialized, and the shareholder's register is held by the DEPOZITARUL CENTRAL S.A. Bucuresti.

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

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

The Rompetrol Rafinare shares	2015	2016	2017
Number of shares	44,109,205,726	44,109,205,726	44,109,205,726
Stock exchange capitalization, mil. lei ¹	2,170.173	2,514.225	2,346.61
Stock exchange capitalization, mil. Euro ²	479.225	553.66	503.60
Maximum price, lei ³	0.0492	0.0598	0.06
Minimum price, lei ⁴	0.0344	0.04	0.0496
Price at the end of the year, lei	0.0492	0.057	0.0532

¹ Calculated on the basis of the price of the share on the last transaction day of the year under consideration, respectively on December 29th, 2017;

² Calculated at the euro exchange rate (4.6597) of the last trading session of the year under consideration, respectively December 29th, 2017

³ Recorded on January 9th, 2017.

⁴ Recorded on July 10th, 2017.

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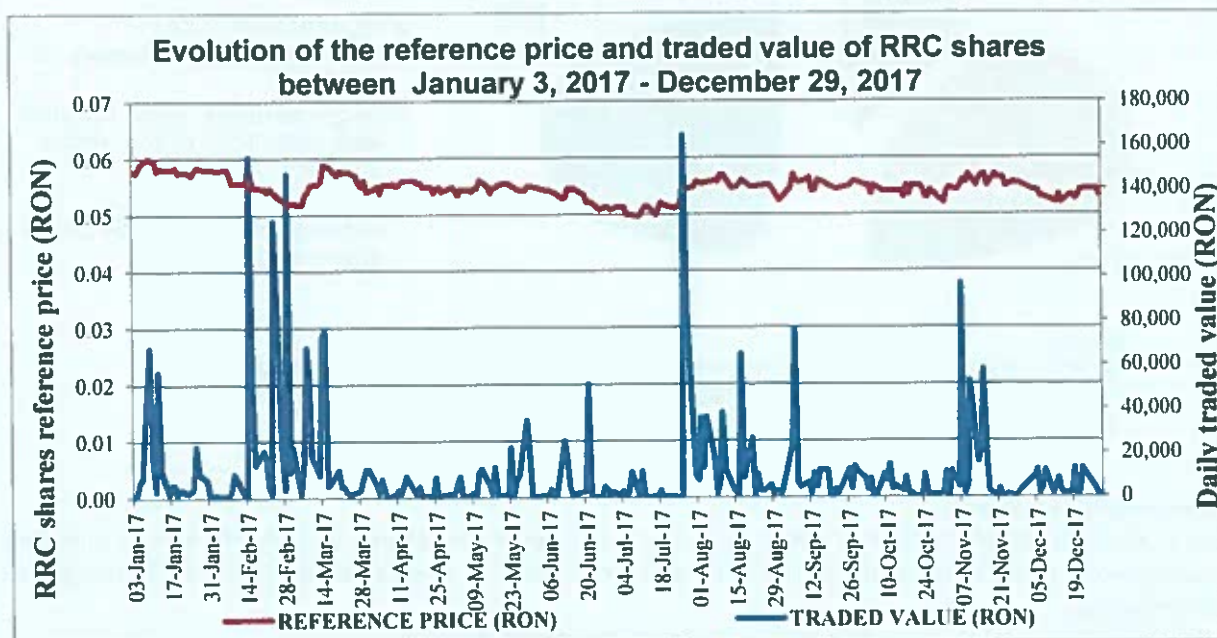
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Weighted Average Price (WAP) of RRC shares during 2017 = 0.054990589 lei/share;

The volume traded in March represents 19.94% of the entire volume traded in 2017 (total traded volume in 2017 = 2,918,649lei)

Rompetrol Rafinare Shareholders Structure

In the period under review there were no changes likely to influence the share capital of the Company.

According to the Shareholders' register consolidated on December 31, 2017, the structure of the Company's significant shareholders is presented in the following graph:

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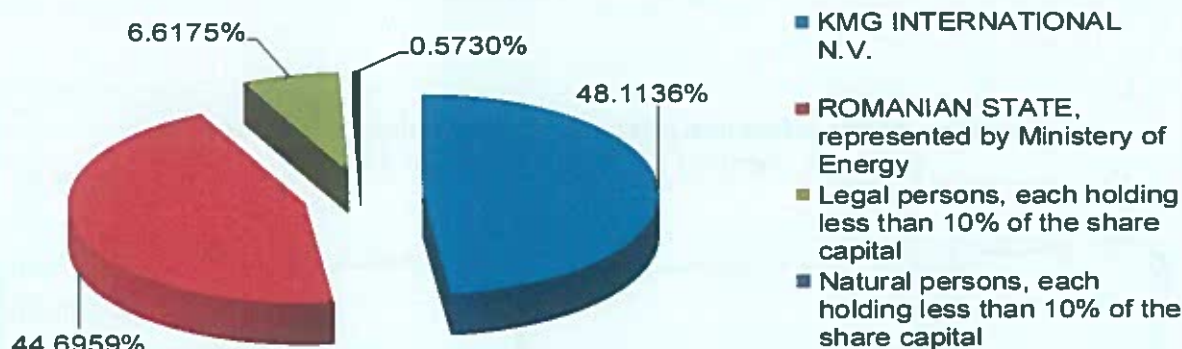
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The structure consolidated by the Depozitarul Central S.A. on 31.12.2017



Note:

At 31 December 2017, the shareholders of KMG International Group own a number of 24,098,569,799 shares, representing 54.6339% of the share capital.

Company's own shares

At 31.12.2017, ROMPETROL RAFINARE S.A. held a number of own shares of 6,134,701 having a nominal value of RON 0.10 per share and a total value of RON 613,470.10, which represents 0.0139% of Company's share capital.

The Company did not trade (by acquiring or selling) its own shares during 2017.

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

In 2017, the subsidiaries of society have not held shares issued by Rompetrol Rafinare.

The financial calendar proposed for the year 2017

Financial Calendar	Date
<i>Presentation of the preliminary, unaudited, individual and consolidated results of the year 2017 and fourth Quarter of 2017</i>	<i>February 15th, 2018</i>
<i>Ordinary General Assembly of Shareholders, to approve the annual financial results of year 2017</i>	<i>April 27th/ April 30th, 2018</i>
<i>Publication of the 2017 Annual Report (i.e. publication of the financial results of 2017)</i>	<i>April 30th, 2018</i>
<i>Presentation of the results recorded during the first quarter of 2018</i>	<i>May 15th, 2018</i>
<i>Presentation of the results recorded during the first semester and second quarter of 2018</i>	<i>August 14th, 2018</i>
<i>Presentation of the results recorded during the third quarter of 2016 and between January – September 2018</i>	<i>November 14th, 2018</i>
<i>Telephone conferences and / or meetings with investors and financial analysts, as appropriate</i>	<i>On request</i>

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Corporate Governance

Issuers whose securities are admitted to trading on a regulated market are required to include compliance or non-compliance with the Declaration on the Code of Corporate Governance ("Comply or Explain" Declaration). Therefore, all relevant information relating to corporate governance practices were included in the Corporate Governance section in the "Corporate Governance Statement" relating to the Annual Report 2017.

Investor Relations Contact

Important information and news of interest to the shareholders, analysts and investors, regarding Company's activity, are available on the web- www.rompetrol-rafinare.ro, in the Investor Relations section.

The annual, semiannual and quarterly reports are made available to shareholders upon request. Requests may be submitted electronically, via e-mail at: office.rafinare@rompetrol.com.

STRATEGY

The Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy is reaffirming the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group. KMG International relies on four synergic pillars:

- A modern, reliable and highly performing asset base
- Capable management to drive improved performance
- Long-term strategy that links the company's strengths with opportunities on the market
- Adequate access to financial markets to fund strategy implementation

The sound strategy has allowed the Group to significantly improve financial and operational results during 2012 and 2016 period:

- Petromidia refinery achieved record production volumes, well above the designed capacity, and improved technical performance;
- Retail entities sales volumes increased;
- Consolidated financial net result reached positive levels in the last three years.

OUTLOOK FOR 2018

Market environment: For 2018 the Group budgeted a crude average price of 55 \$/bbl. From computation of the difference between main petroleum products quotations and Urals quotation, weighted at 2018 approved budget production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur) results a Market refining margin valued at 48.4 \$/tonne.

In 2018, it is expected a positive growth trend in terms of gasoline and diesel demand for Group's key markets of 0.53% (annual average for Romania and Near Abroad).

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

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

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From the production perspective, in 2018, the Group has the following assumptions in terms of budget:

- ✓ Total feedstock planned to be processed in 2018 estimated at 5.45 million tonnes or 16.4 thousand tonnes/day
- ✓ White products yield of 85.6%, -1% below actual 2017 mainly from different structure of feedstock (crude oil and SRGO).
- ✓ Increase in processing cost by 1.7 USD/tonne compared with 2017, mainly due to utilities expenses caused by higher utilities tariffs and negative impact from the exchange rate.

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected reach higher levels than in 2017.

FINANCIAL HIGHLIGHTS – CONSOLIDATED

	2017	2016	%	2017	2016	%
Financial	USD	USD		RON	RON	
Gross Revenues	4,151,088,337	3,566,449,386	16%	16,153,960,263	13,878,837,787	16%
Net Revenues	3,093,007,328	2,440,510,028	27%	12,036,438,017	9,497,244,775	27%
EBITDA	210,727,761	186,548,315	13%	820,047,082	725,952,768	13%
EBITDA margin	6.8%	7.6%		6.8%	7.6%	
EBIT	57,540,694	92,457,898	-38%	223,919,608	359,799,909	-38%
Net profit / (loss)	20,705,457	57,145,367	-64%	80,575,287	222,381,195	-64%
Net Profit / (loss) margin	0.7%	2.3%		0.7%	2.3%	

The results have been supported by an increase in the volume of processed raw materials and of the petroleum products sold in Romania and in the region, as well as by optimizing and increasing the efficiency of the processing, logistics and distribution costs, but also by implementing programs for transformation of current activities to reduce operational expenses and increase profitability.

Rompetrol Rafinare consolidated gross revenues reached over USD 4.151 billion in 2017. The increase of this indicator by 16% as against 2016 was influenced by the volatility of international quotations for petroleum products and by the increase in the volume of products sold compared to similar periods last year.

In 2017 the RRC net result is negatively affected by one off transaction in respect of changes in accounting policies in respect of non-current assets, from cost model to revaluation model.

The change from cost to revaluation model will provide a more transparent and up-to-date picture of the value of the RRC Group assets.

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

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ECONOMIC ENVIRONMENT

		2017	2016	%
Brent Dated	USD/bbl	54	44	24%
Ural Med	USD/bbl	53	42	26%
Brent-Ural Differential	USD/bbl	0.96	1.58	-40%
Premium Unleaded 10 ppm FOB Med	USD/tonne	548	462	19%
Diesel ULSD 10 ppm FOB Med	USD/tonne	490	395	24%
RON/USD Average exchange rate		4.05	4.06	0%
RON/USD Closing exchange rate		3.89	4.30	-10%
RON/EURO Average exchange rate		4.57	4.49	2%
RON/EURO Closing exchange rate		4.66	4.54	3%
USD/EURO Closing rate		1.20	1.06	13%
Inflation in Romania*		3.32%	-0.54%	N/A

Source: Platts, * INSSE

The Brent price started the year moving in a narrow bandwidth around the \$55 per barrel mark, which held until the beginning of March. The months of March through July were characterized by price volatility with intra-month swings of \$5 per barrel with pressure to the downside ultimately winning out. Brent fell briefly below the \$45 per barrel mark in mid-to-late June, marking the low point for the year. Second semester saw a reversal of this trend, with a series of supply outages and strong demand indications contributing to global stock draws and a growing perception of a tighter global crude market.

High compliance by OPEC and non-OPEC participants to the supply cut deal went a long way to contributing to the perceived rebalancing of markets. Record high crude runs in many places around the world also helped soak up new supply coming online in the Atlantic Basin.

2017 was a turbulent year for Urals differentials. Urals Med and Urals NWE started the year at discounts to Dated Brent of roughly \$1.10 and \$1.75 per barrel respectively (Platts). Both broadly maintained a discount to Dated Brent of \$1 per barrel or more until late May. Both differentials then strengthened against Dated Brent for a couple of months, peaking close to parity with the benchmark crude in late - July/early - August, with Urals Med briefly pricing at a small premium to Dated Brent. The reason for this strengthening can largely be attributed to lower loadings of Urals NWE from May onward whilst maintenance was carried out on a crude supply pipeline.

The recovery of European medium sour supplies in August and September weakened Urals differentials. The end of September saw the Northern Iraqi region of Kurdistan's referendum on independence. The aftermath of the vote saw Iraqi government forces occupy oilfields in the Kirkuk region, which had previously been under the control of the Kurdish Regional Government. Iraqi crude exports from the Turkish port of Ceyhan dipped considerably following this development. This proved bullish for Urals differentials, with Urals Med and Urals NWE surging 80 cents and \$1.30 per barrel, respectively, in late-September/early October to discounts vs Dated Brent of about 25 cents and \$1 per barrel, respectively (Platts). Low levels of Russian refinery maintenance in Q4 2017 contributed to the continued decline of total medium sour supplies in Europe, which lent strength to

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Urals differentials. Further supply side support came from the temporary outage of the 450,000 b/d Forties Pipeline System between 11 December and Christmas/New Year.

Med premium unleaded gasoline cracks had an overall healthy year in 2017. Although the highs of 2016 were not sustained on average, strong regional and global demand as well as competition for supply from a resurgent middle distillate complex kept balances in a relatively price-supportive area for most of the year. Global light distillate inventories moved from a high seasonal level at the start of the year to almost in line with the 5-year average by year's end. Mediterranean gasoline demand itself essentially held near levels observed in the prior year. This is a marked change from expectations from just a few years ago and was driven partly by economic gains but also by still relatively low prices and a broad European shift towards buying gasoline cars rather than diesel.

Gasoline cracks did see some pressure in Q4, especially compared to the last two years. One has to keep in mind that winter 2016 & 2017 were especially strong in terms of gasoline cracks, and this year appears to be more in line with typical seasonal developments whereby weak Atlantic Basin demand weighs on cracks until late Q1. Nevertheless, what has been true is that a lack of growth in crude runs in Latin America and some refining issues in the Middle East, such as the prolonged out of the huge RFCC units at Ruwais, have been supportive and should continue to be supportive at least through the start of 2018.

Overall, 2017 was a good year for diesel markets, mostly on the back of strong global demand growth. Additionally, heavy stock draws in Europe and the US helped reduce the global inventory overhang quite significantly. Supported by strong middle distillate fundamentals, diesel cracks in the key refining hubs trended higher y-o-y over most of 2017. Meanwhile, Hurricane Harvey's landfall and the subsequent drop in US supply in an already tight global market sent cracks temporarily to multi-year highs. The rise and fall of cracks was sharpest in Europe, which usually takes in a large number of spare US barrels.

European cracks were on an overall downward trend over Q4, pressured by ample arbitrary inflows and exceptionally strong crude runs as swing refiners in the region ramped up runs in an effort to catch the high cracks wave. Nonetheless, European diesel cracks remained higher y-o-y amid healthy demand growth in Q4 2017. Additional support for European cracks came from lower availability of US exports, which were focused on the Central and South American market. Nonetheless, cracks performed worse than the US and Asian markets, which finished the year near their Harvey highs.

Cracking margins for sour crude in the Med were over 30% higher in 2017 than in 2016. Margins found strong support in higher middle distillate cracks on the back of a booming global economy. Higher margins were also needed to encourage European swing refiners to increase intake in line with surging global demand and the continued outage of a sizeable portion of Latin American refining capacity. As a result, run rates in the European Med were around 160,000 b/d higher in 2017 than in 2016. In Q3, global refining capacity became even tighter due to a hurricane season that proved much more disruptive than in 2016, reducing US crude runs in September by 1.5 million b/d relative to the prior month.

However, pressure began to mount in Q4 not least due to the significant swing capacity drawn into the market. High runs saw gasoline cracks weaken while fuel oil cracks continued on a downward path that started in the summer as ample pressure came from sharply rising crude price. Mediterranean cracks were also negatively impacted by a stronger Urals market on the back of high runs and tighter availability of medium-sour supplies in the region. The discount of Urals Med to Dated Brent was around \$1 per barrel, narrower in Q4 2017 than in Q4 2016.

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

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REFINING SEGMENT

		2017	2016	%	2017	2016	%
Financial		USD	USD		RON	RON	
Gross Revenues	USD/RON	3,479,314,807	2,898,959,937	20%	13,539,753,571	11,281,302,595	20%
Net Revenues	USD/RON	2,588,143,186	1,976,229,685	31%	10,071,759,208	7,690,497,819	31%
EBITDA	USD/RON	164,431,901	124,717,672	32%	639,886,743	485,338,821	32%
EBITDA margin	%	6.4%	6.3%		6.4%	6.3%	
EBIT	USD/RON	58,749,524	65,112,548	-10%	228,623,772	253,385,480	-10%
Net profit / (loss)	USD/RON	8,774,525	45,542,814	-81%	34,146,063	177,229,861	-81%
Net profit / (loss) margin	%	0.3%	2.3%		0.3%	2.3%	
Gross cash refinery margin/tonne (Petromidia)	USD/(RON)/tonne	50.90	42.47	20%	198.07	165.29	20%
Gross cash refinery margin/bbl (Petromidia)	USD/(RON)/bbl	7.01	5.85	20%	27.27	22.76	20%
Net cash refinery margin/tonne (Petromidia)	USD/(RON)/tonne	28.01	21.94	28%	109.02	85.36	28%
Net cash refinery margin/bbl (Petromidia)	USD/(RON)/bbl	3.86	3.02	28%	15.01	11.75	28%
Operational							
Feedstock processed In Petromidia refinery	thousand tonnes	5,662	5,408	5%			
Feedstock processed In Vega refinery	thousand tonnes	373	354	5%			
Gasoline produced	thousand tonnes	1,488	1,448	3%			
Diesel & jet fuel produced	thousand tonnes	2,979	2,751	8%			
Motor fuels sales - domestic	thousand tonnes	2,128	1,884	13%			
Motor fuels sales - export	thousand tonnes	2,111	2,118	0%			
Export	%	50%	53%				
Domestic	%	50%	47%				

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

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Gross revenues of refining segment reached over USD 3.479 billion in 2017 increase by 20% as against last year, being mainly influenced by the volatility of international quotations of petroleum products and by the increase in the volume of products sold compared to similar periods last year.

In 2017 the total throughput for Petromidia refinery was 5.66 million tonnes, higher by 4.71% compared with last year when the total throughput was 5.4 million tonnes.

The refining capacity utilization for Petromidia refinery was 85.88% in 2017, lower by 0.8% compared with last year.

Petromidia refinery managed to achieve in 2017 a very good operational performance, at historically high levels for its main technological and operational parameters such as:

- ✓ total feedstock processed of ~5.66 million tonnes - record total feedstock processed since 1979, an equivalent of 16.8 thousand tonnes/day of operation total feedstock processed, 5% improvement against last year;
- ✓ record for white products production 4.88 million tonnes;
- ✓ record for auto gasoline production of 1.46 million tonnes;
- ✓ record for diesel production of 2.74 million tonnes;
- ✓ record for propylene production of 133 thousand tonnes;
- ✓ technological loss of 0.85% wt;
- ✓ jet yield (4.4 %), equivalent of 251 thousand tonnes production;
- ✓ Energy Intensity Index 99.9%
- ✓ mechanical availability 96.47%
- ✓ operational availability 93.3%.

In respect of Vega refinery (the oldest processing unit operating in Romania (since 1905) and the only domestic producer of bitumen and hexane), the total throughput was 372.954 thousand tonnes in 2017, higher by 5.26% compared with last year when the total throughput was 354.306 thousand tonnes for 2016.

The refining capacity utilization for Vega refinery was 113% in 2017, higher by 5.65% higher compared with last year.

Vega refinery also managed to achieve in 2017 very good operational performance results, at historical high levels, of which the following are emphasized:

- ✓ historical record for feedstock processed of 373 thousand tonnes higher by 19 thousand tonnes as against last year;
- ✓ historical record for Bitumen production and sales of 96 thousand tonnes;
- ✓ historical record for ecological solvents production of 41 thousand tonnes;
- ✓ Hexane production reached 80 thousand tonnes;
- ✓ lowest technological loss of ~ 1%wt;

The gross cash refinery margin improved in 2017 compared with last year by 20% reaching a level of 50.9 \$/tonne as against 42.5 \$/tonne in 2016. The company's financial results were positively influenced by favourable market conditions and by production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization, programs that started in the year 2014 and successfully continued in 2015, 2016 and 2017 (out of which reduction in steam and power consumption are the most significant).

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 1.264 billion in 2017.

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Trade Registry No: J 13/534/1991 IBAN: RO22BACX000000030500310
Fiscal Identification No: RO1860712
UniCredit Tiriac Bank - Constanta



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KazMunayGas
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PETROCHEMICALS SEGMENT

		2017	2016	%	2017	2016	%
Financial		USD	USD		RON	RON	
Revenues	USD/RON	191,326,498	180,271,804	6%	744,547,067	701,527,725	6%
EBITDA	USD/RON	(5,304,452)	6,320,969	-184%	(20,842,275)	24,598,051	-184%
EBIT	USD/RON	(20,365,240)	(8,865,805)	130%	(79,251,332)	(34,501,280)	130%
Net profit / (loss)	USD/RON	(12,977,684)	(11,264,121)	15%	(50,502,658)	(43,834,327)	15%
Operational							
Propylene processed	thousand tonnes	134	124	9%			
Ethylene processed	thousand tonnes	64	65	-2%			
Total polymers production	thousand tonnes	147	150	-2%			
Sold from own production		189	188				
Sold from trading	thousand tonnes	1	1	17%			
Total sold		191	190	1%			
Export	%	50%	57%				
Domestic	%	50%	43%				

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

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

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

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

The 2017 year was very good for the petrochemicals activity in terms of operational performance:

- Historical record for feedstock processed running only with PP and LDPE units: 198.5 thousand tonnes (134 thousand tonnes, propane propylene mixture, 64 thousand tonnes ethylene);
- Historical record for production: 193 thousand tonnes;
- Record for propylene grade production: 20 thousand tonnes;
- Lowest energy index 18.7 GJ/tonne.

In 2017, the total polymers production for Petrochemicals area was 147 thousand tonnes by 1.77 % lower compared with last year when the total polymers production was 150 thousand tonnes, mainly due to lower operation period of units.

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MARKETING SEGMENT

		2017	2016	%	2017	2016	%
Financial		USD	USD		RON	RON	
Gross Revenues	USD/RON	2,453,396,882	2,196,231,269	12%	9,547,393,966	8,546,633,983	12%
EBITDA	USD/RON	52,903,421	55,320,629	-4%	205,873,663	215,280,228	-4%
EBIT	USD/RON	21,093,980	36,638,553	-42%	82,087,145	142,578,929	-42%
Net profit / (loss)	USD/RON	27,493,675	24,119,283	14%	106,991,638	93,860,190	14%
Operational							
Fuels quantities sold in retail	thousand tonnes	693	636	9%			
Fuels quantities sold in wholesale	thousand tonnes	1,191	1,126	6%			
LPG quantities sold	thousand tonnes	363	273	33%			

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

The marketing segment had a turnover of over 2.453 billion USD for the year 2017 higher by 12 % as against last year.

Sales increased in 2017 compared with 2016 for retail, wholesale and LPG segment by 9%, 6% respectively 33%.

In 2017 compared to 2016, the Platts quotations (FOB Med Italy-mean), expressed in the currency of reference, USD were on average by 18,5% higher for gasoline and by 24% higher for diesel.

Internally, a major influence in changing prices had a reduction in VAT starting with 1st of January 2017, from 20% to 19%, and excise duties on fuels were reduced by 7 eurocents/litre. Subsequently, fuel excises increased by 0.32 RON/liter in two stages of 0.16 RON/liter, the first stage starting on 15th of September 2017, and the second stage entered into force since 1st of October 2017.

Rompetrol Downstream, covering the Romanian market, reached record sales in 2017 of 1.89 million tonnes, increase by 7% against 2016 (1.77 million tonnes). Record sales were noted in all major channels, having also a historical level for the petroleum products daily sales for all retail channels. In addition to the petroleum products sales, the non-fuel retail segment reached record contribution with an increase of 20% compared to 2016.

During 2017, Rompetrol Downstream continued the implementation of important investment projects, like opening 4 new stations, increasing the internal base network and rebranding of gas stations, LPG skids, partner stations and express stations. On top of this, the continuation of the implementation of the new business model by Rompetrol Downstream plus the enhancement of the cost control measures have allowed Rompetrol Downstream to obtain better operational results, generating a higher EBITDA by 5% versus last year.

As of December 2017, the Rompetrol Downstream's distribution segment contained 807 points of sale, including the network of owned stations, partner stations and mobile stations: express, cuves and internal bases.

In 2017, Rompetrol Quality Control (RQC) continued the positive results from last year in order to consolidate its overall market share and to increase the turnover and profitability from third-party customers. The revenues from third-party customers obtained in 2017 were the highest in the last 2 years, increasing by 6% compared with the year 2016.

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APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2017, UNAUDITED

	2017	2016	%	2017	2016	%
	USD	USD		RON	RON	
Gross Revenues	4,151,088,337	3,566,449,386	16%	16,153,960,263	13,878,837,787	16%
Sales taxes and discounts	(1,058,081,009)	(1,125,939,358)	-6%	(4,117,522,246)	(4,381,593,012)	-6%
Net revenues	3,093,007,328	2,440,510,028	27%	12,036,438,017	9,497,244,775	27%
Cost of sales	(2,786,630,756)	(2,191,393,341)	27%	(10,844,173,588)	(8,527,807,188)	27%
Gross margin	306,376,572	249,116,687	23%	1,192,264,429	969,437,587	23%
Selling, general and administration	(190,883,469)	(163,675,757)	17%	(742,823,021)	(636,944,209)	17%
Other operating income	801,814	9,193,599	-91%	3,120,259	35,776,891	-91%
Other operating expenses	(58,754,223)	(2,176,631)	2599%	(228,642,059)	(8,470,360)	2599%
EBIT	57,540,694	92,457,898	-38%	223,919,608	359,799,909	-38%
Finance, net	(32,699,932)	(32,728,268)	0%	(127,251,783)	(127,362,055)	0%
Unrealized net foreign exchange (losses)/gains	(903,766)	1,020,605	-189%	(3,517,004)	3,971,684	-189%
Realized net foreign exchange (losses)/gains	319,217	(6,166,624)	-105%	1,242,233	(23,997,417)	-105%
EBT	24,256,213	54,583,611	-56%	94,393,054	212,412,121	-56%
Income tax	(3,550,756)	2,561,756	-239%	(13,817,767)	9,969,074	-239%
Net result	20,705,457	57,145,367	-64%	80,575,287	222,381,195	-64%
EBITDA	210,727,761	186,548,315	13%	820,047,082	725,952,768	13%

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	December 31, 2017	December 31, 2016	%	December 31, 2017	December 31, 2016	%
	USD	USD		RON	RON	
Assets						
Non-current assets						
Intangible assets	8,252,455	7,265,762	14%	32,114,429	28,274,713	14%
Goodwill	82,871,706	82,871,706	0%	322,495,245	322,495,245	0%
Property, plant and equipment	1,254,559,178	1,138,146,913	10%	4,882,117,042	4,429,098,714	10%
Financial assets and other	37,839,253	64,968,050	-42%	147,251,452	252,823,167	-42%
Total Non Current Assets	1,383,522,592	1,293,252,431	7%	5,383,978,168	5,032,691,839	7%
Current assets						
Inventories	342,623,825	230,091,565	49%	1,333,320,615	895,401,325	49%
Trade and other receivables	436,209,507	287,577,488	52%	1,697,509,296	1,119,107,795	52%
Derivative financial Instruments	-	5,340	-	-	20,781	-
Cash and cash equivalents	12,592,193	15,810,298	-20%	49,002,519	61,525,775	-20%
Total current assets	791,425,525	533,484,691	48%	3,079,832,430	2,076,055,676	48%
Total assets	2,174,948,117	1,826,737,122	19%	8,463,810,598	7,108,747,515	19%
Equity and liabilities						
Total Equity	704,345,972	478,624,262	47%	2,740,962,354	1,862,566,317	47%
Non-current liabilities						
Hybrid instruments - long-term portion	14,687,203	-	0%	57,155,250	-	0%
Provision	85,001,042	76,429,343	11%	330,781,551	297,424,788	11%
Long-term debt	-	193,162,805	-	-	751,693,056	-
Other	3,923,537	483,680	711%	15,268,444	1,882,241	711%
Total non-current liabilities	103,611,782	270,075,828	-62%	403,205,245	1,051,000,085	-62%
Current Liabilities						
Trade and other payables	966,666,960	788,571,675	23%	3,761,784,480	3,068,726,677	23%
Derivative financial instruments	48,387	323,130	-85%	188,298	1,257,460	-85%
Short-term debt	400,275,016	289,142,227	38%	1,557,670,221	1,125,196,976	38%
Total current liabilities	1,366,990,363	1,078,037,032	27%	5,319,642,999	4,195,181,113	27%
Total equity and liabilities	2,174,948,117	1,826,737,122	19%	8,463,810,598	7,108,747,515	19%

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Risk Management

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

Interest rate risk

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

Foreign exchange risk

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

Liquidity and cash flow risks

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

One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2017 the company enjoyed continuous financing resources at the needed levels and ensured that no cases of temporary lack of financial resources or of lack of liquidity of the company occurred, as a result of selling products guaranteed with payment instruments and negotiating receipt terms from clients and payment terms to suppliers that are advantageous, maintaining at the same time a good relation with the business partners. Rompetrol Rafinare is part of the cash pooling facility of the KMG I Group and therefore can cover unexpected cash outflows by drawing from the facility.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

- Trade receivables

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

- Financial instruments and bank deposits

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

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Commodity price risk

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

According to the hedge policy, on the raw materials and petroleum products side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, the hedge strategy for 2017 was split between futures and options while a certain quantity above base operating stock left unhedged.

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

Operational risk

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

Subsequent events

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until April 10, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until May 28, 2018.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2018.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2018.

At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates from Act Financial Solutions BV (former ACT Commodities BV).

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Note:

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

The functional currency, as basis for preparing the financial statements, is USD. RON currency is used as currency for presenting the informations in USD, according to the International Financial Reporting Standards. All the RON information were obtained by multiplying the USD values with the exchange rate USD/RON = 3.8915 as of 31 December 2017.

PRESIDENT OF BOARD OF DIRECTORS
Catalin Dumitru

MEMBER OF THE BOARD OF DIRECTORS
Alexey Golovin

MEMBER OF THE BOARD OF DIRECTORS
Yedil Utekov

MEMBER OF THE BOARD OF DIRECTORS
Mihai-Liviu Mihalache

MEMBER OF THE BOARD OF DIRECTORS
Nicoleta-Viorica Soisun

Prepared by,
CHIEF FINANCIAL OFFICER
Vasile-Gabriel Manole

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