

**ROMPETROL RAFINARE SA**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS ENDORSED BY THE EUROPEAN UNION (EU)**

**JUNE 30, 2017**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
Prepared in accordance with International Financial Reporting Standards  
As endorsed by the European Union (EU)  
At 30 June 2017

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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at June 30, 2017**

*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2a))*

	Notes	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
		USD	USD	RON	RON
Intangible assets	3	7,558,830	7,265,762	30,171,069	29,001,269
Goodwill	4	82,871,708	82,871,708	330,782,416	330,782,416
Property, plant and equipment	5	1,119,368,049	1,138,146,913	4,467,957,568	4,542,913,403
Available for sale investments	7	18,583	18,583	74,174	74,174
Long-term receivable		1,604,312	1,480,888	6,403,811	5,910,984
Deferred tax asset	13	<u>63,468,579</u>	<u>63,468,579</u>	<u>253,334,834</u>	<u>253,334,834</u>
<b>Total non current assets</b>		<b><u>1,274,890,059</u></b>	<b><u>1,293,252,431</u></b>	<b><u>5,098,723,672</u></b>	<b><u>5,162,017,080</u></b>
Inventories, net	8	226,157,044	230,091,565	902,705,842	918,410,482
Trade and other receivables	9	390,035,870	287,577,488	1,558,828,176	1,147,865,544
Derivative financial instruments	29.5	401,671	5,340	1,603,270	21,315
Cash and cash equivalents	10	<u>6,807,345</u>	<u>15,810,288</u>	<u>27,171,518</u>	<u>63,106,805</u>
<b>Total current assets</b>		<b><u>623,401,930</u></b>	<b><u>533,484,691</u></b>	<b><u>2,488,308,806</u></b>	<b><u>2,129,404,146</u></b>
<b>TOTAL ASSETS</b>		<b><u>1,898,291,989</u></b>	<b><u>1,826,737,122</u></b>	<b><u>7,577,032,478</u></b>	<b><u>7,291,421,226</u></b>
Share capital	11	1,463,323,897	1,463,323,897	5,840,857,335	5,840,857,335
Share premium	11	74,050,518	74,050,518	295,572,643	295,572,643
Other reserves	11	(2,738,264)	(3,452,149)	(10,929,781)	(13,779,253)
Other reserves - Hybrid instrument	11	1,000,000,000	1,000,000,000	3,991,500,000	3,991,500,000
Effect of transfers with equity holders	11	(596,832,659)	(596,832,659)	(2,382,257,558)	(2,382,257,558)
Accumulated losses		(1,473,246,438)	(1,529,316,646)	(5,880,463,149)	(6,104,267,390)
Current year result		(8,087,790)	56,070,210	(32,282,413)	223,804,240
Equity attributable to equity holders of the parent		456,469,266	483,843,171	1,821,997,077	1,851,430,017
Non-Controlling Interest		15,838,745	14,781,091	63,220,351	58,998,725
<b>Total equity</b>		<b><u>472,308,011</u></b>	<b><u>478,624,262</u></b>	<b><u>1,885,217,428</u></b>	<b><u>1,910,428,742</u></b>
Long-term borrowings from banks	12	-	193,162,805	-	771,009,338
Deferred tax liabilities	13	306,570	306,570	1,223,674	1,223,674
Provisions	16	74,981,195	76,429,343	299,287,439	305,057,723
Other non-current liabilities		<u>190,173</u>	<u>177,110</u>	<u>759,076</u>	<u>706,935</u>
<b>Total non-current liabilities</b>		<b><u>75,477,938</u></b>	<b><u>270,076,828</u></b>	<b><u>301,270,169</u></b>	<b><u>1,078,007,668</u></b>
Trade and other payables	14	878,855,508	788,571,875	3,511,943,264	3,147,583,848
Derivative financial instruments	29.5	-	323,130	-	1,289,773
Short-term borrowings from shareholders and related parties	15	233,733,109	268,253,969	932,945,702	1,070,735,716
Short-term borrowings from banks	15	236,917,423	20,888,258	945,655,895	83,375,481
<b>Total current liabilities</b>		<b><u>1,350,506,040</u></b>	<b><u>1,078,037,032</u></b>	<b><u>5,390,644,861</u></b>	<b><u>4,302,984,816</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>1,898,291,989</u></b>	<b><u>1,826,737,122</u></b>	<b><u>7,577,032,478</u></b>	<b><u>7,291,421,226</u></b>

CATALIN DUMITRU  
 PRESIDENT of the BOARD of DIRECTORS

YEDIL UTEMOV  
 CHIEF EXECUTIVE OFFICER

VASILE-GABRIEL MANOLE  
 CHIEF FINANCIAL OFFICER

The accompanying notes from 1 to 30 are an integral part of these consolidated financial statements.  
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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED INCOME STATEMENT**  
**for the year ended at June 30, 2017**

*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2a))*

	Notes	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
		USD	USD	RON	RON
Revenues	17	1,274,423,444	1,153,144,118	5,086,861,177	4,602,774,746
Cost of sales	18	(1,175,922,909)	(1,033,407,093)	(4,693,696,291)	(4,124,844,413)
<b>Gross profit</b>		<b><u>98,500,535</u></b>	<b><u>119,737,025</u></b>	<b><u>393,164,886</u></b>	<b><u>477,930,333</u></b>
Selling, general and administrative expenses, including logistic costs	19	(88,165,446)	(78,802,299)	(351,912,378)	(313,741,076)
Other operating income/(expenses), net	20	(2,900,402)	1,317,335	(11,576,954)	5,258,142
<b>Operating profit</b>		<b><u>7,434,687</u></b>	<b><u>42,452,061</u></b>	<b><u>29,675,554</u></b>	<b><u>169,447,399</u></b>
Finance cost	21	(28,805,809)	(20,774,261)	(114,978,386)	(82,920,464)
Finance income	21	15,136,581	4,634,264	60,417,663	18,497,665
Foreign exchange gain / (loss), net	21	(380,525)	(3,808,769)	(1,518,866)	(15,202,702)
<b>Profit/(Loss) before income tax</b>		<b><u>(6,615,086)</u></b>	<b><u>22,503,295</u></b>	<b><u>(26,404,035)</u></b>	<b><u>89,821,898</u></b>
income tax	23	(415,070)	(471,982)	(1,656,752)	(1,883,918)
<b>Profit/(Loss) for the year</b>		<b><u>(7,030,136)</u></b>	<b><u>22,031,313</u></b>	<b><u>(28,060,787)</u></b>	<b><u>87,937,982</u></b>
<i>Attributable to:</i>					
Equity holders of the parent		(8,087,790)	21,480,887	(32,282,413)	85,660,328
Non-Controlling interests		1,057,654	570,626	4,221,626	2,277,654
<b>Earnings per share (US cents/share)</b>					
Basic	25	(0.018)	0.049	(0.072)	0.196

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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**for the year ended at June 30, 2017**

*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2a))*

	<u>June 30,</u> <u>2017</u> USD	<u>June 30,</u> <u>2016</u> USD	<u>June 30,</u> <u>2017</u> RON	<u>June 30,</u> <u>2016</u> RON
Net Gain/(Loss) for the year	<u>(7,030,136)</u>	<u>22,031,313</u>	<u>(20,060,787)</u>	<u>87,937,982</u>
Other comprehensive income				
Hedge reserve	713,885	(878,704)	2,849,472	(3,507,347)
Other comprehensive Income (loss) for the year, net of tax	713,885	(878,704)	2,849,472	(3,507,347)
Total comprehensive loss for the year, net of tax	<u>(6,316,251)</u>	<u>21,152,609</u>	<u>(25,211,315)</u>	<u>84,430,635</u>
Attributable to:				
Equity holders of the parent	(7,373,905)	20,581,983	(29,432,941)	82,152,981
Non-Controlling interests	1,057,654	570,626	4,221,626	2,277,654
Total comprehensive loss for the year	<u>(6,316,251)</u>	<u>21,152,609</u>	<u>(25,211,315)</u>	<u>84,430,635</u>

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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the year ended at June 30, 2017**

*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2a))*

	<u>June 30,</u> <u>2017</u> <u>USD</u>	<u>June 30,</u> <u>2016</u> <u>USD</u>	<u>June 30, 2017</u> <u>RON</u>	<u>June 30,</u> <u>2016</u> <u>RON</u>
Profit/(Loss) before income tax	(6,615,066)	22,503,295	(26,404,035)	89,821,898
<i>Adjustments for:</i>				
Depreciation and amortisation	47,129,958	48,330,659	188,119,223	182,911,826
Provisions for receivables and inventories (incl write-off)	3,195,053	(483,772)	12,753,054	(1,930,975)
Impairment for property, plant and equipment (incl write-off)	-	26,581	-	106,098
Late payment interest	64,289	8,956	256,610	35,748
Other financial income	(159,582)	(171,601)	(836,892)	(684,845)
Interest income	(14,977,019)	(4,462,663)	(59,780,771)	(17,812,720)
Interest expense and bank charges, net	27,951,332	20,062,408	111,567,742	80,079,102
Unrealised gains from derivatives	-	201,000	-	802,292
(Gain)/Loss on sale or disposal of property, plant and equipment	(219,134)	(123,012)	(874,674)	(481,002)
Unrealised foreign exchange (gain)/loss	8,508,044	3,487,300	33,959,858	13,919,558
<b>Cash generated from operations before working capital changes</b>	<b>64,877,895</b>	<b>89,379,151</b>	<b>258,960,115</b>	<b>356,756,880</b>
<i>Net working capital changes :</i>				
Receivables and prepayments	(318,090,528)	(152,591,040)	(1,269,658,343)	(609,067,135)
Inventories	1,089,980	(31,703,494)	4,270,825	(128,544,496)
Trade and other payables, including changes in payables for capital expenditures	278,328,097	79,820,886	1,110,946,606	318,605,061
<b>Change in working capital</b>	<b>(38,692,451)</b>	<b>(104,473,648)</b>	<b>(154,440,912)</b>	<b>(417,006,570)</b>
<b>Cash payments for derivatives, net</b>	<b>(6,576)</b>	<b>(1,431,960)</b>	<b>(22,257)</b>	<b>(5,715,668)</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>26,179,868</b>	<b>(18,526,457)</b>	<b>104,496,946</b>	<b>(65,565,358)</b>
<i>Cash flows from investing activities</i>				
Purchase of property, plant and equipment	(28,850,486)	15,359,143	(114,358,417)	61,306,027
Purchase of intangible assets	(74,505)	(150,434)	(297,386)	(600,458)
Proceeds from sale of property, plant and equipment	246,958	121,995	985,733	488,943
<b>Net cash used in investing activities</b>	<b>(28,478,033)</b>	<b>15,330,704</b>	<b>(113,670,070)</b>	<b>61,192,512</b>
<i>Cash flows from financing activities</i>				
Cash pooling movement	17,910,962	36,457,239	71,491,605	145,519,069
Short - term loans (repaid to)/ received from shareholders	(26,519,206)	4,604,858	(105,851,411)	18,380,291
Short - term loans/ (repaid to) received from banks, net	22,879,423	(19,827,117)	81,323,217	(79,139,938)
Interest and bank charges paid, net	(20,975,967)	(15,599,745)	(83,725,572)	(62,266,382)
<b>Net cash used in financing activities</b>	<b>(6,704,788)</b>	<b>5,635,235</b>	<b>(26,762,161)</b>	<b>22,483,040</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>	<b>(9,002,953)</b>	<b>4,439,482</b>	<b>(35,935,265)</b>	<b>17,720,194</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>15,910,298</b>	<b>6,727,079</b>	<b>63,106,803</b>	<b>26,851,136</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,907,345</b>	<b>11,166,561</b>	<b>27,171,538</b>	<b>44,571,330</b>

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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended at June 30, 2017

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

Amount in USD

	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2015	1,463,323,897	74,050,518	(1,529,316,646)	(596,832,659)	988,694,530	409,919,640	13,705,934	423,625,574
Net profit for 2016	-	-	21,460,687	-	-	21,460,687	570,626	22,031,313
Other comprehensive income	-	-	-	-	(878,704)	(878,704)	-	(878,704)
Total comprehensive income	-	-	21,460,687	-	(878,704)	20,581,983	570,626	21,152,609
June 30, 2016	<u>1,463,323,897</u>	<u>74,050,518</u>	<u>(1,507,855,959)</u>	<u>(596,832,659)</u>	<u>887,815,826</u>	<u>430,501,623</u>	<u>14,276,560</u>	<u>444,778,183</u>
	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2016	1,463,323,897	74,050,518	(1,473,246,438)	(586,832,659)	986,547,851	463,843,171	14,781,091	478,624,282
Net loss for 2017	-	-	(8,087,790)	-	-	(8,087,790)	1,057,654	(7,030,136)
Other comprehensive income	-	-	-	-	713,885	713,885	-	713,885
Total comprehensive income	-	-	(8,087,790)	-	713,885	(7,373,905)	1,057,654	(6,316,251)
June 30, 2017	<u>1,463,323,897</u>	<u>74,050,518</u>	<u>(1,481,334,228)</u>	<u>(586,832,659)</u>	<u>987,261,736</u>	<u>456,469,266</u>	<u>15,838,745</u>	<u>472,308,011</u>

  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended at June 30, 2017  
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

Amount in RON	2016						2017									
	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2015	5,840,857,335	295,572,643	(6,104,257,393)	(2,382,257,558)	3,986,289,216	1,636,194,243	54,707,236	1,690,901,482	5,840,857,335	295,572,643	(6,018,807,061)	(2,382,257,558)	3,992,781,868	1,718,347,228	56,984,860	1,775,332,117
Net profit for 2016	-	-	85,660,332	-	-	85,660,332	-	87,937,986	-	-	-	-	-	(3,507,347)	-	(3,507,347)
Other comprehensive income	-	-	-	-	(3,507,347)	(3,507,347)	-	(3,507,347)	-	-	-	-	(3,507,347)	-	-	(3,507,347)
Total comprehensive income	-	-	85,660,332	-	(3,507,347)	82,152,985	2,277,654	84,430,635	-	-	-	-	(3,507,347)	-	-	(3,507,347)
June 30, 2016	<u>5,840,857,335</u>	<u>295,572,643</u>	<u>(6,018,807,061)</u>	<u>(2,382,257,558)</u>	<u>3,992,781,868</u>	<u>1,718,347,228</u>	<u>56,984,860</u>	<u>1,775,332,117</u>	<u>5,840,857,335</u>	<u>295,572,643</u>	<u>(5,932,745,552)</u>	<u>(2,382,257,558)</u>	<u>3,990,570,219</u>	<u>1,821,997,077</u>	<u>63,220,351</u>	<u>1,885,217,428</u>
December 31, 2017	5,840,857,335	295,572,643	(5,880,463,149)	(2,382,257,558)	3,977,720,747	1,851,430,018	58,998,725	1,910,428,742	5,840,857,335	295,572,643	(5,932,745,552)	(2,382,257,558)	3,977,720,747	(32,282,413)	4,221,626	(28,060,787)
Net loss for 2017	-	-	(32,282,413)	-	-	(32,282,413)	-	(32,282,413)	-	-	-	-	-	2,849,472	-	2,849,472
Other comprehensive income	-	-	-	-	2,849,472	2,849,472	-	2,849,472	-	-	-	-	2,849,472	(29,432,941)	-	(26,583,469)
Total comprehensive income	-	-	(32,282,413)	-	2,849,472	(29,432,941)	4,221,626	(26,583,469)	-	-	-	-	2,849,472	(29,432,941)	-	(26,583,469)
June 30, 2017	<u>5,840,857,335</u>	<u>295,572,643</u>	<u>(5,932,745,552)</u>	<u>(2,382,257,558)</u>	<u>3,990,570,219</u>	<u>1,821,997,077</u>	<u>63,220,351</u>	<u>1,885,217,428</u>	<u>5,840,857,335</u>	<u>295,572,643</u>	<u>(5,932,745,552)</u>	<u>(2,382,257,558)</u>	<u>3,990,570,219</u>	<u>1,821,997,077</u>	<u>63,220,351</u>	<u>1,885,217,428</u>

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**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2a))*

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**1. GENERAL**

Rompotrol Rafinare S.A. (hereinafter referred to as "the Parent Company" or "the Company" or "the Parent" or "RRC") is a company incorporated under Romanian law. The Parent Company operates Petromidia and Vega refineries. Petromidia refinery, located on the Black Sea coast, 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 1975-1977 and was further modernized in the early 1990's and from 2005 to 2012.

Rompotrol Rafinare S.A. and its subsidiaries (hereinafter referred to as "the Group") are involved in refining, petrochemicals and downstream activities, and have all production facilities located in Romania (see Note 7.a). The number of employees of the Group at the end of June 2017 and December 2016 was 1,828 and 2,114 respectively.

The registered address of Rompotrol Rafinare S.A. is Bd. Navodari no. 215, Navodari, Constanta, Romania. Rompotrol Rafinare S.A. and its subsidiaries are part of KMG International N.V. with its registered address located at World Trade Centre, Strawinskytaan 807, Tower A, 8th floor, 1077 XX Amsterdam, the Netherlands.

The Group's ultimate parent company is "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan and owned by the Kazakh State.

The Company is a joint stock company listed on the Bucharest Stock Exchange.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective as of June 30, 2017, as endorsed by the European Union ("EU").

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments and available-for-sale (AFS) financial assets that have been measured at fair value.

The consolidated financial statements provide comparative information in respect of the previous period.

**b) Going concern**

The financial statements of the Group are prepared on a going concern basis.

**c) Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous financial year.

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

**d) Standards issued but not yet effective**

The Group has not adopted ahead of schedule the following standards/interpretations:

- **IFRS 9 Financial Instruments – Classification and measurement**  
The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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 Group is in the process of assessing the impact of this amendment to the financial position or performance of the Group.
- **IFRS 15 Revenue from Contracts with Customers**  
The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has concluded on the preliminary assessment performed on this new standard, that no significant impact will have on the Group's financial position or performance.
- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**  
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this new standard on the Group's financial position or performance.
- **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 standard has not been yet endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.
- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**  
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

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

- **IAS 40: Transfers to Investment Property (Amendments).** The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.
  
- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration** The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.
  
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

**e) Foreign currency translation**

The group's presentation currency is the US Dollar (or "USD") that is the functional currency of the Parent and is the currency of the primary economic environment and industry in which the Group operates.

Transactions and balances not already measured in USD, and that are measured in RON or other currencies, have been re-measured in USD as follows:

Monetary assets and liabilities

Cash and cash equivalents, receivables, payables and short-term loans have been translated into USD at the year-end exchange rate. Gain or loss on translation of these assets and liabilities is recorded in the income statement.

Non-monetary assets and liabilities

Non-monetary assets and liabilities are translated from their historical cost or valuation by applying the exchange rate USD/RON from the date of acquisition, valuation or contribution to the statement of financial position.

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

Consolidated statement of income

Consolidated statement of income items have been translated applying the exchange rate from the month when the items were initially recorded to the consolidated income statement.

Exchange gains and losses arising on the re-measurement that are not denominated in USD are credited/charged to the consolidated Income Statement for the year.

Other matters

In Romania, the official exchange rates are published by the National Bank of Romania ("Central Bank" or "National Bank"), and are considered to be a reasonable approximation of market exchange rates.

The translation of RON denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could realize or settle in US dollars the reported values of these assets and liabilities. Likewise it does not indicate that the Group could retain or distribute the reported USD values of equity to its shareholders.

Romanian lei translation for information purposes basis

Amounts in Romanian lei are provided for information purpose basis only and are translated by multiplying the values in USD with the 30 June 2017 closing exchange rate of RON 3.9915= USD 1, for both 2017 and 2016 amounts.

**f) Significant accounting judgments, estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

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

The matters presented below are considered to be the most important in understanding the judgments that are involved in preparing these consolidated financial statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash 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 Group based its assumptions and estimates on parameters available when the consolidated 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 Group. Such changes are reflected in the assumptions when they occur.

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

- Impairment of Goodwill on acquisitions

The Group's impairment test for goodwill is based on fair value less costs to sell calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to undertake. The recoverable amount is most 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 (Note 4).

- Impairment of non-financial assets

The Group 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 variation in regulatory environments. 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.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 4 and Note 5.

- Provision for environmental liability

The Group is involved in refining and petrochemicals, wholesale and retail and other related services. Environmental damage caused by such substances may require the Group to incur restoration costs to comply with the relevant regulations, and to settle any legal or constructive obligation. Analysis and estimates are performed by the Group 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 disbursements are determined to be probable, are recognized as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognized provisions, the Group's income statement is impacted.

Further details on provision for environmental liability are provided in Note 16.

- Provision for decommissioning

The Group considers any provisions for decommissioning on acquisition of assets. In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected costs to dismantle and remove the depot from the site and the expected timing of those costs. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provision for decommissioning are provided in Note 16.

- Deferred tax assets

Deferred tax assets are recognized for all unused tax losses 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.

Further details on deferred tax assets are provided in Notes 13 and 22.

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

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

- Carrying value of trade and other receivables

The Group assesses at each reporting date the requirement for an allowance 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 allowance. The allowance is recognized where there is objective evidence that a particular trade receivable or a group of trade receivables have impaired.

- Carrying value of inventories

The Group considers on a regular basis the carrying value of inventories in comparison to expected use of items, impact of damaged or obsolete items, technical losses and a comparison to estimated net realizable value compared to cost, based on latest available information and market conditions. As applicable a reserve against the carrying value of inventories is made.

- Provision for litigations

The Group 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 case, the expected claim to be paid and the expected timing of the payments. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provisions relating to litigations are provided in Notes 16, 20 and 27.

**g) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 30 June 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If a Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

**h) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group analyses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**i) 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.

*i. Financial assets*

**Initial recognition and measurement**

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 Group 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.

**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 amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation 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.

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

***Available for sale financial assets***

Available for sale financial assets include equity investments. These are classified as available for sale assets are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available for sale assets reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale assets reserve to the statement of profit or loss in finance costs.

Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available for sale assets category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**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 Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**Impairment of financial assets**

When the Group 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 Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group has retained.

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

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group 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.

*ii. 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 Group'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
- Loans and borrowings at amortized cost;

**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.

*iii. Offsetting of financial instruments*

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

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

**j) Property, plant and equipment**

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been commissioned, such as repairs and maintenance are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the following estimated useful lives.

Buildings and other constructions	10 to 60 years
Storage tanks	20 to 30 years
Tank cars	25 years
Machinery and other equipment	3 to 20 years
Gas pumps	8 to 12 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Computers	3 years

Assets held 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.

**k) Intangible assets**

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and 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 to 5 years.

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.

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

**l) Impairment of non-financial assets**

At each reporting date the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the 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 property, plant and equipment 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.

*Goodwill*

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicated that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

**m) Provisions**

Provisions are recognized when the Group 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 of the amount of the obligation can be made. Where the Group 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.

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**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 expensed.

The Group has an environmental policy which complies with existing legislation and any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Group 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.

**n) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. The Group has assets held under finance leases and that have been measured at their fair values at the date of acquisition.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, that represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term, net of any operating lease incentives received.

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

**o) Inventories**

Inventories raw material, petroleum products, 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, minus 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.

**p) Trade receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 that the receivable should be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

**q) 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.

**r) Revenue recognition**

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 incentive discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized, that the Group:

- Has primary responsibility for providing the goods or service
- 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.

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

**s) Interest bearing loans and borrowings**

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings 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.

**t) Borrowings costs**

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 consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

**u) Retirement benefit costs**

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group 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.

Under collective labour agreements in certain of the Group's entities, employees are entitled to specified retirement benefits, payable on retirement, if they are employed with these entities 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 with the relevant Group entities; and actuarial assumptions on future liabilities. 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 income statement. All actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur for all defined benefit plans.

The Group has no other liabilities with respect to future pension, health and other costs for its employees.

**v) 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, by the reporting date, in the countries where the Group 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.

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

- *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 or loss
- 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.

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 at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. 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 Group 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 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.

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

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.

**w) Dividends**

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

**x) Foreign Currency Transactions**

The Group translates its foreign currency transactions and balances into functional currency by applying to the foreign currency amount 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 consolidated income statement in the period they arise.

**y) Derivative Financial Instruments**

The Group enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the Group primarily to risks of changes in fair value of crude oil and related oil products (commodity risk). The Group also uses financial instruments (primarily Options, Swaps and forwards) to hedge its risks associated with the fluctuation of foreign exchange.

For foreign exchange related derivatives, the Group treats the unrealized part as Derivative Financial Asset/Liability in the statement of financial position with corresponding impact on financial charges. The use of financial derivatives is governed by the Group's policies approved by board of directors, which provide written principles on the use of financial derivatives. The Group determines gain/loss on a net basis based on the daily open positions.

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 fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in period profit or loss. The Group's policy with respect to hedging forecasted transactions is to designate it as a cash flow hedge. If the cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognized in profit or loss in the same period in which the hedged items affects period profit or loss.

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.

For the future contracts (purchase and sales contracts) that are entered into by the Group to hedge its commodity risk the realized and unrealized gains/losses are included in Cost of sales for the period (see Note 18).

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

**z) Emission Rights**

CO2 emission rights quota are allocated to the Group's refining and petrochemicals operations. For the period 2013-2020 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. Rompetrol Refinery received its quota allocation for 2016 and the one for 2017 was received on February 24, 2017. The Group accounts for the liability resulting from generating of these emissions using the net liability method. The actual emissions are not expected to exceed the certificates which the group has in its accounts in CO2 EU Register at the time of annual compliance (April 2017). The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective group companies. Income is recognised only when excess certificates are sold on the market.

**aa) Contingencies**

Contingent liabilities are not recognized in the consolidated 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**

**Amounts in USD**

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<i>Cost</i>				
Opening balance as of January 1, 2016	33,528,262	38,536,728	2,357,408	74,422,398
Additions	2,418	63,716	1,790,316	1,856,450
Transfers from CIP	(72,269)	170,836	(98,567)	-
Transfers and reclassifications*	-	-	(26,805)	(26,805)
Closing balance as of December 31, 2016	<u>33,458,411</u>	<u>38,771,280</u>	<u>4,022,362</u>	<u>76,252,043</u>
Additions	802	30,444	43,159	74,505
Transfers from CIP	37,861	96,565	(134,426)	-
Transfers and reclassifications*	638,453	275,306	16,364	930,123
Closing balance as of June 30, 2017	<u>34,135,627</u>	<u>39,173,595</u>	<u>3,947,449</u>	<u>77,256,671</u>
<i>Accumulated amortization</i>				
Opening balance as of January 1, 2016	(32,515,882)	(34,703,944)	(523,388)	(67,743,206)
Charge for the year	(552,315)	(690,760)	-	(1,243,075)
Accumulated amortization of disposals	158,713	(158,713)	-	-
Closing balance as of December 31, 2016	<u>(32,909,484)</u>	<u>(35,553,417)</u>	<u>(523,388)</u>	<u>(68,986,281)</u>
Charge for the year	(339,648)	(371,912)	-	(711,560)
Closing balance as of June 30, 2017	<u>(33,249,132)</u>	<u>(35,925,329)</u>	<u>(523,388)</u>	<u>(69,697,841)</u>
<i>Net book value</i>				
As of December 31, 2016	<u>548,927</u>	<u>3,217,863</u>	<u>3,498,972</u>	<u>7,265,762</u>
As of June 30, 2017	<u>886,495</u>	<u>3,248,266</u>	<u>3,424,069</u>	<u>7,558,830</u>

\* ) Includes, transfer to property, plant and equipment, reclassifications between categories and other adjustments;

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**3. INTANGIBLE ASSETS (continued)**

Major part of "Other" (Intangible Assets) relates to licenses.

In 2016, out of the total additions of USD 1.85 million, USD 1.54 million (RON: 6.63 million) refers to licenses and software in relation to equipment for Rompetrol Rafinare.

Amounts in RON

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<i>Cost</i>				
Opening balance as of January 1, 2016	133,828,058	153,019,350	9,409,594	297,057,002
Additions	9,851	254,322	7,146,046	7,410,019
Transfers from CIP	(288,462)	881,892	(393,430)	-
Transfers and reclassifications*	-	-	(106,992)	(106,992)
Closing balance as of December 31, 2016	<u>133,549,247</u>	<u>154,755,564</u>	<u>16,055,218</u>	<u>304,360,029</u>
Additions	3,600	121,517	172,269	297,386
Transfers from CIP	151,122	385,439	(536,581)	-
Transfers and reclassifications*	2,548,385	1,098,884	65,317	3,712,586
Closing balance as of June 30, 2017	<u>136,252,354</u>	<u>156,361,404</u>	<u>16,756,243</u>	<u>309,370,001</u>
<i>Accumulated amortization</i>				
Opening balance as of January 1, 2016	(129,787,143)	(138,520,782)	(2,089,071)	(270,397,006)
Charge for the year	(2,204,585)	(2,757,169)	-	(4,961,734)
Accumulated amortization of disposals	633,503	(633,503)	-	-
Closing balance as of December 31, 2016	<u>(131,358,205)</u>	<u>(141,811,454)</u>	<u>(2,089,071)</u>	<u>(275,358,740)</u>
Charge for the year	(1,355,705)	(1,484,487)	-	(2,840,192)
Closing balance as of June 30, 2017	<u>(132,713,910)</u>	<u>(143,395,951)</u>	<u>(2,089,071)</u>	<u>(278,198,932)</u>
<i>Net book value</i>				
As of December 31, 2016	<u>2,191,042</u>	<u>12,944,100</u>	<u>13,969,147</u>	<u>29,001,289</u>
As of June 30, 2017	<u>3,538,444</u>	<u>12,965,453</u>	<u>13,667,172</u>	<u>30,171,069</u>

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**4. GOODWILL**

The carrying value of goodwill as of 30 June 2017 and 31 December 2016 was USD 82,871,706 (RON: 330,782,416).

The whole carrying amount of goodwill has been allocated to Downstream Romania Cash Generating Unit ("Downstream Romania CGU"). Two other cash generating units in the Group are: Refineries and Petrochemicals.

The Downstream Romania CGU comprises the retail and wholesale operations of Rompetrol Downstream SRL and the wholesale activity supported by the storage depots owned by Rom Oil S.A.

**Impairment test**

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2016 on the Downstream Romania cash generating units ("CGU"). Based on the impairment test no impairment has been identified. For further details see Note 6.

**5. PROPERTY, PLANT AND EQUIPMENT**

**Amounts in USD**

<i>Cost</i>	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
As of January 1, 2016	<u>968,134,261</u>	<u>1,189,432,815</u>	<u>122,758,947</u>	<u>73,815,700</u>	<u>2,354,142,723</u>
Acquisitions	-	105,966	988,499	58,491,759	59,586,224
Transfers from CIP	11,851,455	12,568,200	4,443,607	(28,863,282)	-
Disposals	(1,532,984)	(9,996,145)	(3,086,799)	(19,962)	(14,635,890)
Transfers and reclassifications*	(8,347)	(26,084)	34,431	(118,839)	(118,839)
<b>As of December 31, 2016</b>	<b><u>978,444,385</u></b>	<b><u>1,192,084,752</u></b>	<b><u>125,139,685</u></b>	<b><u>103,305,396</u></b>	<b><u>2,398,974,218</u></b>
Additions	-	95,615	417,702	28,137,169	28,650,486
Transfers from CIP	7,238,399	6,553,233	2,203,840	(15,995,472)	-
Disposals	-	(842,670)	578,362	(836)	(265,144)
Transfers and reclassifications*	-	(943,072)	-	(40,056)	(983,128)
As of June 30, 2017	<u>985,682,784</u>	<u>1,196,947,858</u>	<u>128,339,589</u>	<u>115,405,201</u>	<u>2,426,375,432</u>
<b>Accumulated depreciation &amp; impairment</b>					
As of January 1, 2016	<u>(459,512,759)</u>	<u>(594,783,545)</u>	<u>(95,642,159)</u>	<u>(28,923,732)</u>	<u>(1,178,062,194)</u>
Charge for the year	(26,044,186)	(63,416,506)	(5,074,257)	-	(94,534,949)
Accumulated depreciation of disposals	576,718	9,953,103	2,392,487	-	12,922,308
Impairment	-	-	-	(351,877)	(351,877)
Transfers and reclassifications*	(141,778)	124,973	16,212	-	(593)
<b>As of December 31, 2016</b>	<b><u>(485,122,004)</u></b>	<b><u>(648,121,975)</u></b>	<b><u>(98,307,717)</u></b>	<b><u>(29,275,609)</u></b>	<b><u>(1,260,827,305)</u></b>
Charge for the year	(13,225,758)	(30,398,314)	(2,794,326)	-	(46,418,398)
Accumulated depreciation of disposals	-	216,581	20,759	-	237,320
As of June 30, 2017	<u>(498,347,762)</u>	<u>(678,303,728)</u>	<u>(101,081,284)</u>	<u>(29,275,609)</u>	<u>(1,307,008,383)</u>
<b>Net book value as of December 31, 2016</b>	<b><u>493,322,381</u></b>	<b><u>543,962,777</u></b>	<b><u>26,831,968</u></b>	<b><u>74,029,787</u></b>	<b><u>1,138,146,913</u></b>
<b>Net book value as of June 30, 2017</b>	<b><u>487,335,022</u></b>	<b><u>518,644,130</u></b>	<b><u>27,258,305</u></b>	<b><u>86,130,592</u></b>	<b><u>1,119,368,049</u></b>

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

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

**Amounts in RON**

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost</i>					
As of January 1, 2016	<u>3,864,387,903</u>	<u>4,747,621,081</u>	<u>489,996,328</u>	<u>294,635,367</u>	<u>9,396,660,679</u>
Acquisitions	-	422,963	3,945,594	233,469,856	237,838,413
Transfers from CIP	47,305,083	50,165,970	17,736,657	(115,207,710)	-
Disposals	(6,118,906)	(39,899,613)	(12,320,956)	(79,678)	(58,419,155)
Transfers and reclassifications*	(33,317)	(104,114)	137,431	(474,346)	(474,346)
<u>As of December 31, 2016</u>	<u>3,905,460,763</u>	<u>4,758,206,287</u>	<u>499,495,052</u>	<u>412,343,489</u>	<u>9,575,505,591</u>
Additions	-	381,647	1,667,258	112,309,510	114,358,415
Transfers from CIP	28,892,070	26,157,230	8,796,027	(63,845,927)	-
Disposals	-	(3,363,517)	2,308,532	(3,337)	(1,058,322)
Transfers and reclassifications*	-	(3,764,272)	-	(159,884)	(3,924,156)
As of June 30, 2017	<u>3,934,352,833</u>	<u>4,777,617,375</u>	<u>512,267,469</u>	<u>460,643,851</u>	<u>9,684,981,528</u>
<i>Accumulated depreciation &amp; impairment</i>					
As of January 1, 2016	<u>(1,834,145,174)</u>	<u>(2,374,078,820)</u>	<u>(381,755,678)</u>	<u>(115,449,078)</u>	<u>(4,705,428,448)</u>
Charge for the year	(103,955,368)	(253,126,884)	(20,253,897)	-	(377,336,249)
Accumulated depreciation of disposals	2,301,970	39,727,811	9,549,812	-	51,579,393
Impairment	-	-	-	(1,404,517)	(1,404,517)
Transfers and reclassifications*	(565,907)	498,830	64,710	-	(2,367)
<u>As of December 31, 2016</u>	<u>(1,936,364,479)</u>	<u>(2,586,978,863)</u>	<u>(392,395,253)</u>	<u>(116,853,593)</u>	<u>(5,032,592,188)</u>
Charge for the year	(52,790,613)	(121,334,870)	(11,153,552)	-	(185,279,035)
Accumulated depreciation of disposals	-	884,403	82,860	-	947,263
As of June 30, 2017	<u>(1,989,155,092)</u>	<u>(2,707,449,330)</u>	<u>(403,465,945)</u>	<u>(116,863,593)</u>	<u>(5,216,923,960)</u>
<u>Net book value as of December 31, 2016</u>	<u>1,969,096,284</u>	<u>2,171,227,424</u>	<u>107,099,799</u>	<u>295,489,896</u>	<u>4,542,913,403</u>
<u>Net book value as of June 30, 2017</u>	<u>1,945,197,741</u>	<u>2,070,168,045</u>	<u>109,801,524</u>	<u>343,780,258</u>	<u>4,467,957,568</u>

In 2017, Transfers and Reclassifications of USD 0.983 million (RON 3.924 million) represent transfer to intangibles, reclassifications between categories and other adjustments.

- *Construction in progress*

During 2016, equipment and other assets in value of USD 6.1 million (2015: USD 6.2 million) were commissioned in relation to of Rebranding project for the modernization of retail stations of Downstream.

In 2016 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery specific optimisation programs amounting to USD 7.65 million, ISClR authorisations amounting to USD 4.93 million, Tank rehabilitation amounting to USD 4.3 million and Refinery 2017 turnaround amounting to USD 3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

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

In 2016 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 7.9 million, ISCIR authorisations amounting to USD 5 million, Refinery specific optimisation programs amounting to USD 5.8 million and Refinery 2017 turnaround amounting to USD 2.8 million in respect of Rompetrol Rafinare SA.

In 2017 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery 2017 turnaround amounting to USD 11.04 million and petrochemicals in amount of USD 2 million, ISCIR authorisations amounting to USD 4.96 million, Tank rehabilitation amounting to USD 2.55 million. Part of these projects have been transferred to the other property, plant and equipment categories.

- *Disposals*

In 2016, out of the total USD 14.6 million disposed assets, USD 9.5 million refers to change of catalysts for Rompetrol Rafinare S.A. and USD 4.9 million refers to write-offs for Rompetrol Downstream.

- *Borrowing costs capitalized*

The Group is financing part of its operations from borrowings and hence the cost of these borrowings related to acquisition of qualifying assets is capitalized as part of the cost of those qualifying assets. For the years ended at 31 December 2016 and 31 December 2015 no loans were taken specifically for investments and - no borrowing costs were capitalized.

- *Disposals through sales of subsidiaries and liquidations*

During 2017 and 2016 there was no disposal of companies.

- *Impairment*

The Group completes an annual assessment for any indication of impairment for all entities based on specific asset considerations, as applicable, and taking into consideration expectations on future estimated cash flows. Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2016 on the cash generating units ("CGUs") listed below in Note 6.

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 407.44 million (2016: USD 420.29 million) net, for securing banking facilities granted to Group entities.

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**6. IMPAIRMENT TEST**

Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2016 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2016 the net book value of property plant and equipment for the cash generating units is the following: Refining USD 815 million, Petrochemicals USD 110 million, Downstream USD 192 million.

*Refining*

Refining CGU includes the operations of Petromidia Refinery and Vega Refinery. The recoverable amount of Refining CGU unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.6% (2015: 9.8%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.1% (2015: 8.3%).

*Petrochemicals*

Petrochemicals CGU includes the petrochemical business of the group, which is included within Rompetrol Rafinare legal entity; the unit is involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.6% (2015:9.8%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.1% (2015: 8.3%).

*Downstream Romania*

The Downstream Romania CGU comprises the retail and wholesale operations of Rompetrol Downstream SRL and the wholesale activity supported by the storage depots owned by Rom Oil S.A.

The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit. The discount rate applied to cash flow projections is 9.6% (2015 9.8%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.1 % (2015: 8.3%).

*Key assumptions used in fair value less costs to sell calculations*

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned CGUs are:

- Operating profit;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Following Operating profit margin on the basis of Net revenues were applied for the relevant Cash Generating Units:

	2017	2018	2019	2020	2021
Rompetrol Refinery	2.1%	2.6%	5.5%	4.9%	5.6%
Petrochemicals	-0.9%	-0.8%	2.7%	0.3%	3.4%
Downstream Romania	2.7%	2.6%	4.4%	4.0%	3.9%

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**6. IMPAIRMENT TEST (continued)**

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research.

**Sensitivity to changes in assumptions**

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes that it is very unlikely that changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

*Rompetrol Refinery*

The break-even point for the current model is achieved under a decrease of 48.1% of Operating profit, reaching the following Operating profit margins:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating profit margin	1.1%	1.3%	2.8%	2.6%	2.9%

*Petrochemicals*

The break-even point for the current model is achieved under a decrease of 62.5% of Operating profit, reaching the following Operating profit margins:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating profit margin	-0.3%	-0.3%	1.0%	0.1%	1.3%

*Downstream Romania*

The break-even point for the current model is achieved under a decrease of Operating profit of 67.2% reaching the following Operating profit margins:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating profit margin	0.9%	0.8%	1.5%	1.3%	1.3%

\*Operating profit margins were computed based on net revenue

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**7. INVESTMENTS**

**a) Investments in Consolidated Subsidiaries**

Details of the Group consolidated subsidiaries at December 31, 2016 and 2015 are as follows:

<u>Company name</u>	<u>Range of activity</u>	<u>Effective ownership June 30, 2017</u>	<u>Control June 30, 2017</u>	<u>Effective ownership December 31, 2016</u>	<u>Control December 31, 2016</u>
Rompotrol Downstream S.R.L.	Retail Trade of Fuels and Lubricants	100.00%	100.00%	100.00%	100.00%
Rom Oil S.A.	Wholesale of Fuels; fuel storage	100.00%	100.00%	100.00%	100.00%
Rompotrol Logistics S.R.L.	Logistics operations	66.19%	100.00%	66.19%	100.00%
Rompotrol Petrochemicals S.R.L.	Petrochemicals	100.00%	100.00%	100.00%	100.00%
Rompotrol Quality Control S.R.L.	Quality Control Services	100.00%	100.00%	100.00%	100.00%
Rompotrol Gas S.R.L.	LPG Sales	66.19%	100.00%	66.19%	100.00%

Effective ownership interests for the Group takes into consideration indirect shareholding weighted with corresponding Group ownership in the intermediate shareholder and this percentage is used for consolidation, while the control percent takes into consideration the total interest controlled directly and indirectly.

**b) Available for sale Investments**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	<u>USD</u>	<u>USD</u>	<u>RON</u>	<u>RON</u>
Other	18,583	18,583	79,968	79,968
<b>Total</b>	<b>18,583</b>	<b>18,583</b>	<b>79,968</b>	<b>79,968</b>

Other investments are investments in companies in Romania, which are held primarily for long-term growth potential.

**8. INVENTORIES, NET**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	<u>USD</u>	<u>USD</u>	<u>RON</u>	<u>RON</u>
Crude oil and other feedstock materials	89,502,937	110,510,568	357,250,973	441,102,932
Petroleum and petrochemical products	89,774,904	69,858,959	358,336,529	278,842,035
Work in progress	27,980,381	28,704,734	111,683,691	114,574,946
Spare parts	16,443,226	18,612,033	65,633,137	88,306,930
Consumables and other raw materials	5,122,398	5,583,758	20,446,044	22,287,570
Merchandises	8,219,330	6,787,215	32,807,456	27,091,169
Other inventories	8,720,666	8,725,268	34,808,618	34,826,907
Inventories provision	(19,606,816)	(16,690,970)	(78,260,608)	(86,622,007)
	<u>226,157,044</u>	<u>230,091,565</u>	<u>902,705,642</u>	<u>918,410,482</u>

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**8. INVENTORIES, NET (continued)**

The inventories provision movement in 2017 and 2016 is provided below:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Reserve as of January 1	(16,680,970)	(19,479,973)	(66,622,007)	(77,754,312)
Accrued provision	(2,737,931)	(8,103,255)	(10,928,452)	(24,361,142)
Write off	-	111,172	-	443,743
Reversal of provision	(177,915)	8,781,086	(710,147)	35,049,704
Reserve as of June 30 / December 31	<b>(19,606,816)</b>	<b>(16,690,870)</b>	<b>(78,260,606)</b>	<b>(66,622,007)</b>

The inventories provisions mainly represent the provision for net realizable value in relation to refineries and petrochemical plant.

The Group has pledged inventories in gross amount of USD 109.45 million (2016: USD 170.16 million) to secure banking facilities.

**9. TRADE AND OTHER RECEIVABLES**

As mentioned in Note 1 the Parent company and its subsidiaries are part of KMG International Group. The balances with related parties are disclosed in Note 24.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Trade receivables	284,149,351	252,476,726	1,134,182,135	1,007,760,852
Advances to suppliers	5,846,104	9,141,906	23,334,724	36,489,918
Sundry debtors	34,048,047	31,018,813	135,902,780	123,811,592
VAT to be recovered	16,588	71,450	66,211	285,193
Other receivables	167,496,441	87,803,703	668,562,044	349,670,181
Provision for bad and doubtful debts	(101,520,661)	(92,735,110)	(405,219,718)	(370,152,192)
	<b><u>390,035,070</u></b>	<b><u>287,577,488</u></b>	<b><u>1,566,828,176</u></b>	<b><u>1,147,865,544</u></b>

Movement in the above provision is disclosed below and in Note 20.

Included in Sundry debtors in 2017 is an amount of USD 23.88 million (2016: USD 20.99 million) for payment made by Rompetrol Rafinare for antidumping and countervailing taxes for Biodiesel import (in respect with KMG); and USD 2.97 million (2016: USD 2.75 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2007-2010 period, and an additional USD 3.4 million (2016: USD 3.2 million) for payment made by Rompetrol Rafinare SA to Navodari City Hall following the fiscal audit on local taxes (in respect of revaluation of buildings) (see Note 27).

Out of the total balance for other receivables of USD 167.85 million, an amount of USD 28.2 million (2016: USD 24.74 million) relates to Competition Council fine from Downstream and USD 101.66 million relates to cash pooling receivables for: Rompetrol Downstream (USD 86.9 million) and Rompetrol Gas (USD 14.67 million). Also, in other receivables an amount of USD 11.36 million (2016: USD 13.8 million) refers to excise receivables in Rompetrol Rafinare.

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**9. TRADE AND OTHER RECEIVABLES (continued)**

	<u>June 30,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>	<u>June 30,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>
	USD	USD	RON	RON
Sundry debtors	34,048,047	31,018,813	135,902,780	123,811,592
Other receivables	187,498,441	87,603,703	688,562,044	349,670,181
Provision for sundry debtors and other receivables	(30,118,549)	(26,520,402)	(120,218,188)	(105,858,183)

Out of the total amount of other receivables and sundry debtors of USD 201.5 million (2016: USD 118.6 million) an amount of USD 30.11 million (2016: USD 26.52 million) is provisioned.

The movement in provision for doubtful debts for trade and other receivables is as follows:

	<u>June 30, 2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30, 2017</u>	<u>December 31,</u> <u>2016</u>
	USD	USD	RON	RON
Balance at the beginning of the year	(92,735,110)	(93,925,432)	(370,152,192)	(374,903,362)
Impairment losses recognized on receivables	(876,957)	(1,347,495)	(2,702,074)	(5,378,526)
Impairment losses reversed	399,450	2,049,147	1,594,405	8,179,170
Translation differences	(8,508,044)	488,670	(33,958,857)	1,950,528
Balance at the end of the year	(101,520,661)	(92,735,110)	(405,219,718)	(370,152,192)

Trade receivables totalling USD 104.77 million (RON 418.22 million) as at June 30, 2017 and USD 132.18 million (RON 527.6 million) as at December 31, 2016 are pledged to obtain credit facilities (see Notes 12 and 15).

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**10. CASH AND CASH EQUIVALENTS**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Cash at bank	5,254,980	14,472,800	20,975,253	57,768,181
Cash on hand	1,212,314	1,196,646	4,838,951	4,776,413
Cash equivalents	340,051	140,852	1,357,314	562,211
	<u>6,807,345</u>	<u>15,810,298</u>	<u>27,171,518</u>	<u>63,106,805</u>

Included in cash at bank is USD 1.75 million (RON 6.99 million) as at June 30, 2017 and USD 1.54 million (RON 6.14 million) as at December 31, 2016 representing cash collateral for certain bank facilities (see Note 12 and 15). Cash equivalents represent mainly cheques in the course of being cashed.

**11. SHARE CAPITAL**

As of June 30, 2017 and December 31, 2016 the share capital consisted of 44,109,205,726, authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at June 30, 2017 and December 31, 2016 is as follows:

Shareholders	December 31, 2016			
	Ownership	Amount per statutory documents [RON]	Amount under IFRS [USD]	Amount under IFRS [RON]
KMG International NV	48.11%	2,122,250,642	704,057,130	3,029,769,048
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,814,555,597
Rompotrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	407,454,823
Rompotrol Well Services S.A.	0.05%	2,188,030	729,197	3,137,953
Others (not State or KMG Group)	0.67%	28,562,686	9,807,428	42,204,305
<b>Total</b>	<b>100%</b>	<b>4,410,920,571</b>	<b>1,463,323,897</b>	<b>6,297,121,726</b>

There were no changes in the statutory value of Rompetrol Rafinare SA issued share capital in 2017 and 2016.

*Share premium and effect of transfers with equity holders*

Share premium and effect of transfers with equity holders are the result of conversion of bonds into ordinary shares as at September 30, 2010 in favor of the Romanian State represented by the Ministry of Finance, following the Emergency Ordinance ("EGO") 118/2003 ratified by Law 88/2005.

The transactions resulted in an impact on the Effect of transfer with equity holders reserve amounting USD 596.83 million and share premium of USD 74 million.

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**11. SHARE CAPITAL (continued)**

*Hybrid Loan*

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 200,000,000 were converted (USD 150 million related to Rompetrol Rafinare and USD 50,000,000 to Rompetrol Downstream), the hybrid loan amounting to USD 1,000 million. The loan is 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 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

**12. LONG-TERM BORROWINGS FROM BANKS**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.	-	127,850,463	-	510,315,123
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Rafinare: The exposure is composed by 4 loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.	-	65,556,435	-	261,668,510
Amount payable within one year principal	-	(244,093)	-	(974,297)
<b>Total</b>	<b>=</b>	<b><u>193,162,805</u></b>	<b>=</b>	<b><u>771,009,336</u></b>

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
One year or less - principal	-	244,093	-	974,297
One year or less - accrued interest long-term loans	-	-	-	-
Between two and five years	-	<u>193,162,805</u>	-	<u>771,009,336</u>
<b>Total</b>	<b>=</b>	<b><u>193,162,805</u></b>	<b>=</b>	<b><u>771,009,336</u></b>

The loans are secured with pledges on property plant and equipment of USD 407.44 million (2016: USD 420.29), inventories of USD 109.45 million (2016: USD 170.16) and trade receivables of USD: 104.77 million (2016: USD 132.16million).

The club loan with Raiffeisen/BCR/ING/Unicredit is secured with a USD 200 million Corporate Guarantee by NC KazMunayGas JSC with a maturity of 5 years.

All the financial covenants applicable were complied with as of June 30, 2017

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13. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax, net balances are presented in the statement of financial position as follows:

	<u>June 30,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>	<u>June 30,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>
	<u>USD</u>	<u>USD</u>	<u>RON</u>	<u>RON</u>
Deferred tax assets	(63,468,579)	(63,468,579)	(253,334,834)	(253,334,834)
Deferred tax liabilities	<u>306,670</u>	<u>306,570</u>	<u>1,223,674</u>	<u>1,223,674</u>
Deferred tax (asset) / liability, net	(63,162,009)	(63,162,009)	(252,111,160)	(252,111,160)

The deferred tax (assets) /liabilities are comprised of the tax effect of the temporary differences related to:

USD

<u>2017</u>	<u>Opening</u> <u>balance</u>	<u>Charged/(Credited)</u> <u>to income</u>	<u>Charged/(Credited)</u> <u>to equity</u>	<u>Closing</u> <u>balance</u>
<i>Temporary differences</i>				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	125,006,263	-	-	125,006,263
Inventories	82,619	-	-	82,619
Provisions	(65,525,531)	-	-	(65,525,531)
Tax losses	(454,374,481)	-	-	(454,374,481)
Other	(663)	-	-	(663)
<i>Total temporary differences (asset)/liability</i>	<u>(394,762,555)</u>	<u>-</u>	<u>-</u>	<u>(394,762,555)</u>
<i>Deferred tax effect</i>				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	20,001,002	-	-	20,001,002
Inventories	13,219	-	-	13,219
Provisions	(10,484,085)	-	-	(10,484,085)
Tax losses	(72,699,917)	-	-	(72,699,917)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	<u>(63,162,009)</u>	<u>-</u>	<u>-</u>	<u>(63,162,009)</u>

RON

<u>2017</u>	<u>Opening</u> <u>balance</u>	<u>Charged/(</u> <u>Credited)</u> <u>to income</u>	<u>Charged/(</u> <u>Credited)</u> <u>to equity</u>	<u>Closing</u> <u>balance</u>
<i>Temporary differences</i>				
Intangible assets	196,533	-	-	196,533
Property, plant and equipment	498,982,499	-	-	498,982,499
Inventories	329,774	-	-	329,774
Provisions	(261,545,157)	-	-	(261,545,157)
Tax losses	(1,813,635,741)	-	-	(1,813,635,741)
Other	(2,646)	-	-	(2,646)
<i>Total temporary differences (asset)/liability</i>	<u>(1,575,694,738)</u>	<u>-</u>	<u>-</u>	<u>(1,575,694,738)</u>
<i>Deferred tax effect</i>				
Intangible assets	31,445	-	-	31,445
Property, plant and equipment	79,834,000	-	-	79,834,000
Inventories	52,764	-	-	52,764
Provisions	(41,847,225)	-	-	(41,847,225)
Tax losses	(290,181,721)	-	-	(290,181,721)
Other	(423)	-	-	(423)
Deferred tax (asset)/liability recognized	<u>(252,111,160)</u>	<u>-</u>	<u>-</u>	<u>(252,111,160)</u>

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**13. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

USD				
<b>2016</b>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
<i>Temporary differences</i>				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	102,848,689	22,059,594	-	125,006,263
Inventories	82,619	-	-	82,619
Provisions	(65,525,531)	-	-	(65,525,531)
Tax losses	(410,561,444)	(43,813,038)	-	(454,374,482)
Other	(663)	-	-	(663)
<b>Total temporary differences (asset)/liability</b>	<b>(373,009,112)</b>	<b>(21,753,444)</b>	<b>-</b>	<b>(394,762,556)</b>
<i>Deferred tax effect</i>				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	16,471,467	3,529,535	-	20,001,002
Investments	-	-	-	-
Inventories	13,219	-	-	13,219
Provisions	(10,484,085)	-	-	(10,484,085)
Tax losses	(65,689,831)	(7,010,088)	-	(72,699,917)
Other	(106)	-	-	(106)
<b>Deferred tax (asset)/liability recognized</b>	<b>(59,681,459)</b>	<b>(3,480,551)</b>	<b>=</b>	<b>(63,162,009)</b>
RON				
<b>2016</b>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
<i>Temporary differences</i>				
Intangible assets	196,533	-	-	196,533
Property, plant and equipment	410,911,629	88,050,869	-	498,962,498
Inventories	329,774	-	-	329,774
Provisions	(261,545,157)	-	-	(261,545,157)
Tax losses	(1,838,756,004)	(174,879,741)	-	(1,813,635,745)
Other	(2,646)	-	-	(2,646)
<b>Total temporary differences (asset)/liability</b>	<b>(1,488,865,871)</b>	<b>(86,828,872)</b>	<b>=</b>	<b>(1,575,694,743)</b>
<i>Deferred tax effect</i>				
Intangible assets	31,445	-	-	31,445
Property, plant and equipment	65,745,861	14,088,139	-	79,834,000
Inventories	52,764	-	-	52,764
Provisions	(41,847,225)	-	-	(41,847,225)
Tax losses	(282,200,980)	(27,980,761)	-	(290,181,721)
Other	(423)	-	-	(423)
<b>Deferred tax (asset)/liability recognized</b>	<b>(238,218,539)</b>	<b>(13,892,622)</b>	<b>=</b>	<b>(252,111,160)</b>

The ability of the Group to obtain recovery of its deferred tax asset depends on the entities ability, where tax losses have arisen to generate taxable income sufficient to cover the applicable tax losses available. The Group did not recognize deferred tax income for all available tax losses (see note 22). Management considers that future taxable income will be generated for recovery of the available tax losses where it has recognized a corresponding deferred tax asset.

See also note 22 for details for the Income tax rate and other related matters.

Deferred tax assets and liabilities cannot be offset between the companies from Romania. The local fiscal law does not define the concept of "Fiscal Group".

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**14. TRADE AND OTHER PAYABLES**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Trade payables	654,717,772	628,497,691	2,613,305,892	2,508,648,539
Advances from customers	27,474,858	21,064,941	109,665,095	84,080,712
Special found tax for oil products	6,904,954	6,404,729	27,581,124	25,564,476
VAT payable	30,698,848	27,329,857	122,534,452	109,087,124
Profit tax payable	674,035	185,338	2,690,411	739,769
Other taxes payable	435,218	(620,103)	1,741,164	(2,475,141)
Employees and social obligations	2,973,047	2,891,425	11,866,917	11,541,123
Deferred revenues	4,867,306	5,801,965	19,427,852	23,158,543
Other liabilities	151,026,161	97,015,834	602,820,922	387,238,701
<b>Total</b>	<b><u>879,855,508</u></b>	<b><u>788,571,675</u></b>	<b><u>3,511,943,264</u></b>	<b><u>3,147,583,046</u></b>

The Group entered into a cash pooling contract for optimizing cash, with KMG Rompetrol S.R.L. ("Master Company"). The amounts in balance as of June 30, 2017 are included in other liabilities, for the following companies: Rompetrol Rafinare S.A. USD 137 million and Romoil USD 1.3 million and Rompetrol Quality Control S.R.L. USD 0.8 million, Rompetrol Downstream S.R.L. and Rompetrol Gas have a positive balance included in other receivables (see note 9) amounting to USD 86.89 million and USD 14.67 million respectively.

Also in other liabilities are included short term guarantees in Rompetrol Downstream S.R.L., in amount of USD 3.66 million (2016: USD 3.45 million).

**15. SHORT-TERM DEBT**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	USD	USD	RON	RON
Bancpost	51,532,114	20,644,165	205,690,434	82,401,164
Rompetrol Rafinare S.A.: Revolving credit calling on short term credit facility of up to EUR 30 million, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018. Drawings in USD/EUR/RON.				
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank	103,962,315	-	414,965,580	-
Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The loans are payable by April 23, 2018.				
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank	81,229,100	-	324,225,953	-
Rompetrol Rafinare: The exposure is composed by 4 loans in USD. The loans are payable by April 23, 2018.				
Accrued interest	193,894	-	773,928	-
Current portion of long-term debt	-	244,093	-	974,297
	<b><u>236,917,423</u></b>	<b><u>20,888,258</u></b>	<b><u>945,655,895</u></b>	<b><u>83,375,461</u></b>

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**15. SHORT-TERM DEBT (continued)**

	<u>June 30,</u> <u>2017</u> <u>USD</u>	<u>December</u> <u>31, 2016</u> <u>USD</u>	<u>June 30,</u> <u>2017</u> <u>RON</u>	<u>December</u> <u>31, 2016</u> <u>RON</u>
<u>Borrowings from shareholders and related parties</u>				
KMG International N.V.	166,837,516	196,066,903	665,931,945	782,601,043
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 250 million, maturity date - December 31, 2017, assignment of receivables, real movable security interest over movable assets, real movable security interest over the participations over Rompétrol Logistics SRL, Rompétrol Petrochemicals SRL, Rompétrol Downstream SRL, Romol SA; real movable security interest over the bank accounts.				
Rompétrol Financial Group	28,811,224	26,723,677	115,000,001	106,667,557
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 28.81 million, maturity date - December 31, 2017. The facility has been fully used.				
KMG International N.V.	17,261,257	17,261,257	68,898,307	68,898,307
Rompétrol Downstream SRL: Working capital facility for USD 39.2 million. Maturity date is December 31, 2017 with the possibility to be extended automatically with the agreement of both parties.				
Midia Marine Terminal	7,000,000	7,000,000	27,940,500	27,940,500
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of USD 7 million, maturity date December 31, 2017. The facility has been fully used.				
Rompétrol Well Services S.A	3,255,921	3,020,937	13,000,000	12,058,070
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompétrol Rafinare SA, maturity date - July 10, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Rompétrol Well Services S.A	2,805,963	2,602,654	11,200,001	10,358,493
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompétrol Rafinare SA, maturity date - August 28, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Rompétrol Well Services S.A	1,759,727	1,626,659	7,000,001	6,492,809
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompétrol Rafinare SA, maturity date - July 14, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Rompétrol Well Services S.A	775,650	720,377	3,099,998	2,875,385
Rompétrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompétrol Rafinare SA, maturity date - July 3, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Accrued interest	5,229,851	13,231,505	20,874,949	52,813,552
	<u>233,733,109</u>	<u>268,263,968</u>	<u>932,845,702</u>	<u>1,070,735,716</u>

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**15.SHORT-TERM DEBT (continued)**

All the financial covenants applicable were complied with as of June 30, 2017.

All loans are interest bearing and the effective weighted average interest rates per currency are the following: EUR 3.3% (2016: 2.98%), RON 4.32% (2016: 4.20%) and USD 2.14% (2016: 3.17%).

The loans bearing guarantees are secured with pledges on property plant and equipment of USD 407.44 million (2016: USD 420.29), inventories of USD 109.45 million (2016: USD 170.16) and trade receivables of USD: 104.77 million (2016: USD 132.18 million).

**16. PROVISIONS**

Provisions comprise the following:

	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>
	USD	USD	RON	RON
Non-current provisions	74,981,195	76,429,343	299,287,439	305,067,723
<b>Total Provisions</b>	<u>74,981,195</u>	<u>76,429,343</u>	<u>299,287,439</u>	<u>305,067,723</u>

The movement in provisions is presented below:

USD	<u>At 1 January 2017</u>	<u>Reclassification between balance sheet items</u>	<u>At 30 June 2017</u>
Provision for retirement benefit	6,958,404	-	6,958,404
Provision for restructuring	13,486	-	13,486
Environmental provisions	65,595,731	-	65,595,731
Other provisions	3,861,722	(1,448,148)	2,413,574
<b>Total</b>	<u>76,429,343</u>	<u>(1,448,148)</u>	<u>74,981,195</u>

RON	<u>At 1 January 2017</u>	<u>Reclassification between balance sheet items</u>	<u>At 30 June 2017</u>
Provision for retirement benefit	27,774,470	-	27,774,470
Provision for restructuring	53,829	-	53,829
Environmental provisions	261,825,361	-	261,825,361
Other provisions	15,414,063	(5,780,284)	9,633,779
<b>Total</b>	<u>305,067,723</u>	<u>(5,780,284)</u>	<u>299,287,439</u>

The movement in other provisions from 2017 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 1.45 million).

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**16. PROVISIONS (continued)**

USD	<u>At 1 January 2016</u>	<u>Charged to equity</u>	<u>Arising during the year</u>	<u>Reclassification between balance sheet items</u>	<u>At 31 December 2016</u>
Provision for retirement benefit	8,550,536	1,029,432	(621,564)	-	6,958,404
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	65,595,731	-	-	-	65,595,731
Other provisions	6,876,964	-	-	(3,015,242)	3,861,722
<b>Total</b>	<b><u>79,036,717</u></b>	<b><u>1,029,432</u></b>	<b><u>(621,564)</u></b>	<b><u>(3,015,242)</u></b>	<b><u>76,429,343</u></b>

  

RON	<u>At 1 January 2016</u>	<u>Charged to equity</u>	<u>Arising during the year</u>	<u>Reclassification between balance sheet items</u>	<u>At 31 December 2016</u>
Provision for retirement benefit	26,146,464	4,108,978	(2,480,972)	-	27,774,470
Provision for restructuring	53,829	-	-	-	53,829
Environmental provisions	281,825,361	-	-	-	281,825,361
Other provisions	27,449,402	-	-	(12,035,339)	15,414,063
<b>Total</b>	<b><u>315,475,056</u></b>	<b><u>4,108,978</u></b>	<b><u>(2,480,972)</u></b>	<b><u>(12,035,339)</u></b>	<b><u>305,067,723</u></b>

The movement in other provisions from 2016 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 3 million), for more details, see note 20.

An environmental provision has been recognized in prior periods for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. During 2012 an evaluation report was issued by the third party expert 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 USD 67.35 million has been provided by the Group. The Company has re-assessed the provision as of 31 December 2016 and the resulting difference was immaterial. Currently, the suppliers prequalification stage is in progress and considering the further bidding process and final contract negotiation, the expected start of the works on the field will be in the last quarter of 2017 / latest first quarter 2018. After the remediation works will be contracted, a better estimation of the costs will be available and this will be reflected in 2017 financial statements.

Under the collective labor agreements that certain Group's entities have in force it is provided that, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with Group entities at the date of their retirement. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the relevant Group entities; and actuarial assumptions regarding mortality, staff turnover etc. These liabilities are recorded at their fair values as of the balance sheet 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.

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**17. REVENUES**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
Gross revenues from petroleum products production	1,451,182,561	1,542,073,977	5,792,395,192	6,155,188,279
Gross revenues from petroleum products trading	150,062,701	36,622,179	598,975,271	146,177,427
Revenues from petrochemicals production	78,882,304	90,459,745	318,850,216	361,070,072
Revenues from petrochemicals trading	101,890	809,566	406,894	2,433,482
Revenues from other merchandise sales	30,899,891	26,296,512	122,538,615	104,862,528
Revenues from utilities sold	940,839	960,675	3,755,359	3,834,534
Revenues from transportation fees	696,940	634,809	2,781,838	2,533,840
Revenues from rents and other services	4,847,449	4,967,431	19,348,593	19,827,501
<b>Gross Revenues</b>	<b>1,718,414,575</b>	<b>1,702,624,994</b>	<b>6,859,051,776</b>	<b>6,796,027,663</b>
Less sales taxes	(395,389,418)	(500,457,416)	(1,578,186,866)	(1,997,575,776)
Less commercial discounts	(48,601,712)	(49,023,460)	(193,993,733)	(195,677,141)
<b>Total</b>	<b><u>1,274,423,444</u></b>	<b><u>1,153,144,118</u></b>	<b><u>5,086,861,177</u></b>	<b><u>4,602,774,746</u></b>

Total Revenues decreased mainly due to the decrease of prices for crude oil and petroleum products.

**18. COST OF SALES**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
Crude oil and other raw materials	999,264,293	875,725,338	3,988,563,427	3,495,457,686
Consumables and other materials	6,061,473	6,440,274	24,194,369	25,706,354
Utilities	31,243,276	35,062,924	124,707,536	139,953,681
Staff costs	11,182,440	12,059,859	44,554,879	48,136,927
Transportation	76,438	69,580	305,102	277,729
Maintenance	10,012,991	11,714,482	39,966,854	46,768,355
Insurance	682,192	852,757	2,643,139	3,403,780
Environmental expenses	84,091	128,076	335,649	503,232
Other	4,356,209	6,099,674	17,387,808	24,348,849
<b>Cash production cost</b>	<b>1,062,923,403</b>	<b>948,150,954</b>	<b>4,242,658,763</b>	<b>3,784,544,573</b>
Depreciation and amortization	28,709,150	35,332,145	114,592,572	141,028,257
<b>Production costs</b>	<b>1,091,632,553</b>	<b>983,483,109</b>	<b>4,357,251,335</b>	<b>3,925,572,830</b>
Plus: Change in inventories	(69,552,907)	894,120	(277,620,428)	3,568,880
Less: Own production of property, plant & equipment	(1,763,067)	(150,473)	(7,037,282)	(800,613)
<b>Cost of petroleum products trading</b>	<b>129,328,167</b>	<b>26,445,128</b>	<b>516,213,379</b>	<b>105,555,728</b>
Cost of petrochemicals trading	120,916	640,094	482,636	2,554,935
Cost of merchandise sold	24,600,415	22,879,220	98,192,566	91,322,407
Cost of utilities resold	536,356	509,429	2,140,865	2,033,386
Realised (gains)/losses on derivatives	1,020,476	(1,494,534)	4,073,230	(5,965,432)
Unrealised losses on derivatives	-	201,000	-	802,292
<b>Total</b>	<b><u>1,175,922,809</u></b>	<b><u>1,033,407,093</u></b>	<b><u>4,683,686,281</u></b>	<b><u>4,124,844,413</u></b>

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**19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING LOGISTIC COSTS**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
Staff costs	9,758,429	10,222,512	38,954,761	40,803,157
Utilities	2,186,155	1,981,016	8,726,039	7,827,395
Transportation	21,598,831	20,417,545	86,211,734	81,466,631
Professional and consulting fees	12,881,395	12,504,061	51,416,088	49,909,959
Royalties and rents	2,780,589	2,877,749	11,098,721	11,486,535
Consumables	108,807	253,425	434,303	1,011,546
Marketing	1,668,302	1,535,703	6,659,027	6,133,750
Taxes	1,142,498	1,982,223	4,560,273	7,912,043
Communications	380,460	416,496	1,518,606	1,662,444
Insurance	513,662	478,357	2,050,282	1,909,382
IT related expenditures	4,053,641	3,904,707	16,180,108	15,585,638
Environmental expenses	1,183,661	985,876	4,724,583	3,935,124
Maintenance	4,715,451	4,263,845	18,821,723	17,019,137
Other expenses	6,771,760	3,799,270	27,029,480	15,164,786
Costs before depreciation	69,744,639	65,603,785	278,385,727	261,857,507
Depreciation and amortisation	18,420,807	12,998,514	73,526,651	61,883,569
<b>Total</b>	<b><u>88,165,446</u></b>	<b><u>78,602,299</u></b>	<b><u>351,912,378</u></b>	<b><u>313,741,076</u></b>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
Net book value of non-current assets disposals	(27,824)	1,017	(111,059)	4,059
Proceeds on disposals of non-current assets	246,958	121,995	985,733	486,943
Provision for receivables, net	(277,507)	(84,284)	(1,107,869)	(336,420)
Provision for inventories, net	(2,915,846)	572,448	(11,638,599)	2,284,926
Tangible and intangible assets write-off	-	(28,581)	-	(105,098)
Inventories write-off	(1,700)	(4,392)	(6,786)	(17,531)
Other, net	75,517	737,132	301,428	2,942,263
<b>Total</b>	<b><u>(2,800,402)</u></b>	<b><u>1,317,335</u></b>	<b><u>(11,576,954)</u></b>	<b><u>5,258,142</u></b>

The movement in provisions is presented in Notes 5, 8 and 9.

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

	<u>June 30,</u> <u>2017</u> USD	<u>June 30,</u> <u>2016</u> USD	<u>June 30,</u> <u>2017</u> RON	<u>June 30,</u> <u>2016</u> RON
<b>Finance cost</b>				
Late payment interest	(64,289)	(8,958)	(258,610)	(35,748)
Interest expense	(14,888,774)	(8,752,744)	(59,428,541)	(34,936,578)
Interest expense shareholders	(4,808,537)	(4,562,794)	(19,185,292)	(18,212,392)
Commission and other bank charges	(9,047,243)	(7,448,813)	(36,112,070)	(29,731,139)
Collection discounts expenses	1,034	(1,154)	4,127	(4,607)
	<u>(28,805,809)</u>	<u>(20,774,261)</u>	<u>(114,978,388)</u>	<u>(82,920,464)</u>
<b>Finance income</b>				
Interest income	14,977,019	4,462,663	59,780,771	17,812,720
Other financial income	<u>159,562</u>	<u>171,601</u>	<u>696,882</u>	<u>684,945</u>
	<u>15,136,581</u>	<u>4,634,264</u>	<u>60,417,653</u>	<u>18,497,665</u>
<b>Finance income/(cost) net</b>	<u>(13,669,228)</u>	<u>(16,139,997)</u>	<u>(54,560,723)</u>	<u>(64,422,799)</u>
Unrealized net foreign exchange (losses)/gains	(3,414,272)	880,659	(13,628,867)	3,435,320
Realized net foreign exchange (losses)/gains	3,033,747	(4,669,428)	12,109,201	(18,638,022)
Foreign exchange gain/(loss), net	<u>(380,525)</u>	<u>(3,808,769)</u>	<u>(1,518,866)</u>	<u>(15,202,702)</u>
<b>Total</b>	<u>(14,049,753)</u>	<u>(19,948,766)</u>	<u>(56,078,589)</u>	<u>(79,625,501)</u>

Collection discounts expenses represent financial discounts granted by Rompetrol Downstream S.R.L to its customers for the early payment of receivables. From 2017, the amounts were deducted from net revenues.

**22. INCOME TAX**

a) The current income tax rate in 2017 was 16%, the same as in 2016.

	<u>June 30, 2017</u> USD	<u>June 30, 2016</u> USD	<u>June 30, 2017</u> RON	<u>June 30, 2016</u> RON
<b>Tax expense comprises:</b>				
Current tax expense	415,070	471,982	1,656,752	1,883,916
Deferred tax credit relating to the origination and reversal of temporary differences	-	-	-	-
<b>Total tax expense/(income)</b>	<u>415,070</u>	<u>471,982</u>	<u>1,656,752</u>	<u>1,883,916</u>

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

b) The deferred tax liabilities details are disclosed in Note 13.

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**23. OPERATING SEGMENT INFORMATION**

**a) Business Segments**

For management purposes, the Group is currently organized in 3 segments – refining, petrochemicals and marketing. Refining comprises Petromidia and Vega refineries, Petrochemicals comprises petrochemical division of Rompetrol Rafinare SA and Rompetrol Petrochemicals operations and Marketing comprises the operations of Rompetrol Downstream, Rom Oil, Rompetrol Logistics, and Rompetrol Gas.

For the income statement, management analysis is made separately for the 3 segments: Refining, Petrochemicals and Marketing. The balance sheet is analyzed by management at cumulated level for Refining and Petrochemicals segments. As a result, the balance sheet information for segments Refining and Petrochemicals are presented together.

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**23. OPERATING SEGMENT INFORMATION (continued)**

**2017 Income Statement information**

<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	1,046,925,844	79,984,194	609,945,904	(462,432,298)	1,274,423,444
Cost of sales	<u>(1,009,539,465)</u>	<u>(66,370,140)</u>	<u>(552,766,422)</u>	<u>471,753,118</u>	<u>(1,175,922,909)</u>
Gross margin	39,386,179	(6,385,946)	57,179,482	9,320,820	98,500,535
Selling, general and administrative expenses	(27,648,066)	(4,445,546)	(47,094,495)	(8,977,339)	(88,165,446)
Other operating expenses, net	<u>(2,344,504)</u>	<u>(2,032)</u>	<u>(246,050)</u>	<u>(307,816)</u>	<u>(2,900,402)</u>
Operating margin	8,393,609	(10,833,524)	9,838,937	35,665	7,434,687
Financial expenses, net	(11,323,511)	(437)	(2,344,310)	(970)	(13,669,228)
Net foreign exchange result	(14,280,344)	5,331,125	8,568,694	-	(380,525)
Profit before income tax	<u>(17,210,246)</u>	<u>(5,502,838)</u>	<u>16,063,321</u>	<u>34,695</u>	<u>(6,615,066)</u>
Income tax	-	-	<u>(415,070)</u>	-	<u>(415,070)</u>
Net Profit	<u>(17,210,246)</u>	<u>(5,502,836)</u>	<u>15,648,251</u>	<u>34,695</u>	<u>(7,030,136)</u>
Depreciation and amortisation	23,566,777	15,197,551	9,098,814	(733,184)	47,129,958
<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	4,176,003,708	319,256,910	2,434,599,076	(1,845,799,517)	5,086,061,177
Cost of sales	<u>(4,025,595,275)</u>	<u>(344,746,414)</u>	<u>(2,208,367,173)</u>	<u>1,883,002,571</u>	<u>(4,693,695,291)</u>
Gross margin	153,218,433	(25,489,504)	226,231,903	37,204,054	393,164,886
Selling, general and administrative expenses	(110,357,255)	(17,744,397)	(187,077,677)	(35,833,049)	(351,912,378)
Other operating expenses, net	<u>(9,359,089)</u>	<u>(8,111)</u>	<u>(882,109)</u>	<u>(1,228,646)</u>	<u>(11,576,954)</u>
Operating margin	33,503,089	(43,242,012)	39,272,117	142,359	29,675,554
Financial expenses, net	(45,197,794)	(1,744)	(9,357,313)	(3,872)	(54,560,723)
Net foreign exchange result	<u>(56,999,893)</u>	<u>21,279,185</u>	<u>34,201,942</u>	-	<u>(1,518,866)</u>
Profit before income tax	<u>(68,694,697)</u>	<u>(21,964,571)</u>	<u>64,116,746</u>	<u>138,487</u>	<u>(26,404,035)</u>
Income tax	-	-	<u>(1,656,752)</u>	-	<u>(1,656,752)</u>
Net Profit	<u>(68,694,697)</u>	<u>(21,964,571)</u>	<u>62,459,994</u>	<u>138,487</u>	<u>(28,060,787)</u>
Depreciation and amortisation	94,066,790	60,661,025	36,317,915	(2,926,503)	188,119,227

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**23. OPERATING SEGMENT INFORMATION (continued)**

**2017 Statement of financial position information**

<b>USD</b>	<b>Refining &amp; Petrochemicals</b>	<b>Marketing</b>	<b>Consolidation adjustments</b>	<b>Consolidated</b>
Total non-current assets	1,848,631,622	224,537,913	(596,279,476)	1,274,890,059
Total current assets	385,367,417	355,741,128	(117,706,615)	623,401,930
<b>TOTAL ASSETS</b>	<b>2,031,899,039</b>	<b>580,279,041</b>	<b>(713,986,091)</b>	<b>1,898,291,989</b>
Total equity	869,734,637	202,908,106	(600,334,732)	472,308,011
Total non-current liabilities	67,470,228	2,994,010	5,013,700	75,477,938
Total current liabilities	1,084,794,174	374,376,925	(118,665,059)	1,350,508,040
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,031,899,039</b>	<b>580,279,041</b>	<b>(713,986,091)</b>	<b>1,898,291,989</b>
Capital expenditure	27,488,741	1,306,899	(70,649)	28,724,891

<b>RON</b>	<b>Refining &amp; Petrochemicals</b>	<b>Marketing</b>	<b>Consolidation adjustments</b>	<b>Consolidated</b>
Total non-current assets	6,572,530,121	896,243,079	(2,380,049,528)	5,088,723,672
Total current assets	1,538,194,045	1,419,940,712	(469,825,851)	2,488,308,806
<b>TOTAL ASSETS</b>	<b>8,110,724,166</b>	<b>2,316,183,791</b>	<b>(2,849,875,479)</b>	<b>7,577,032,478</b>
Total equity	3,471,545,805	809,907,705	(2,398,236,082)	1,885,217,428
Total non-current liabilities	269,307,416	11,950,590	20,012,183	301,270,189
Total current liabilities	4,389,870,845	1,494,325,486	(473,651,580)	5,390,544,861
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>8,110,724,166</b>	<b>2,316,183,791</b>	<b>(2,849,875,479)</b>	<b>7,577,032,478</b>
Capital expenditure	109,721,310	5,216,487	(281,896)	114,655,801

**2016 Income Statement information**

<b>USD</b>	<b>Refining</b>	<b>Petrochemicals</b>	<b>Marketing</b>	<b>Consolidation adjustments</b>	<b>Consolidated</b>
Net revenues	937,138,992	91,069,411	484,593,160	(359,657,445)	1,153,144,118
Cost of sales	(891,452,697)	(87,882,306)	(421,922,303)	367,850,213	(1,033,407,093)
Gross margin	45,686,295	3,187,105	62,670,857	8,192,768	119,737,025
Selling, general and administrative expenses, net	(21,282,051)	(3,943,957)	(44,832,487)	(8,563,804)	(78,602,299)
Other operating expenses, net	4,293,934	6,097	(109,145)	(2,873,551)	1,317,335
Operating margin	28,718,178	(750,755)	17,729,225	(3,244,587)	42,452,061
Financial expenses, net	(13,072,424)	215,275	(2,540,766)	(742,082)	(16,139,997)
Net foreign exchange result	(6,153,252)	1,527,988	818,515	-	(3,808,769)
Profit before income tax	9,492,502	992,488	16,004,974	(3,986,669)	22,503,295
Income tax	-	-	(471,982)	-	(471,982)
Net Profit	9,492,502	992,488	15,532,992	(3,986,669)	22,031,313
Depreciation and amortisation	32,849,863	7,804,043	8,714,574	(1,037,821)	48,330,659

In total net revenues are included customers that own more than 10% of total sales, their value amounting USD 327.6 million in 2017 and USD 388.8 million in 2016.

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**23. OPERATING SEGMENT INFORMATION (continued)**

<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	3,740,690,287	383,503,554	1,934,253,598	(1,435,572,693)	4,602,774,746
Cost of sales	<u>(3,558,233,440)</u>	<u>(350,782,224)</u>	<u>(1,584,102,872)</u>	<u>1,468,274,123</u>	<u>(4,124,844,413)</u>
Gross margin	182,356,847	12,721,330	250,150,726	32,701,430	477,930,333
Selling, general and administrative expenses	(84,867,477)	(15,742,304)	(178,948,872)	(34,182,423)	(313,741,076)
Other operating expenses, net	<u>17,139,238</u>	<u>24,336</u>	<u>(435,652)</u>	<u>(11,469,780)</u>	<u>5,258,142</u>
Operating margin	114,628,608	(2,996,538)	70,766,202	(12,950,773)	168,447,399
Financial expenses, net	(52,178,580)	859,270	(10,141,467)	(2,962,022)	(64,422,799)
Net foreign exchange result	<u>(24,560,706)</u>	<u>6,088,884</u>	<u>3,259,120</u>	-	<u>(15,202,702)</u>
Profit before income tax	37,889,322	3,951,516	63,883,855	(15,912,795)	89,821,898
Income tax	-	-	<u>(1,883,916)</u>	-	<u>(1,883,916)</u>
Net Profit	37,889,322	3,951,516	61,999,939	(15,912,795)	87,937,982
Depreciation and amortisation	131,120,228	31,149,838	34,784,222	(4,142,483)	192,911,825

**2016 Statement of financial position information**

<u>USD</u>	<u>Refining &amp; Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non-current assets	1,657,832,014	232,348,038	(596,927,621)	1,293,252,431
Total current assets	306,514,311	250,542,299	(23,571,919)	533,484,691
<b>TOTAL ASSETS</b>	<u>1,964,346,325</u>	<u>482,890,337</u>	<u>(620,499,540)</u>	<u>1,826,737,122</u>
Total equity	892,127,184	186,779,797	(600,282,699)	478,624,262
Total non-current liabilities	132,946,441	132,115,887	5,013,700	270,075,828
Total current liabilities	939,272,720	163,994,853	(25,230,541)	1,078,037,032
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1,964,346,325</u>	<u>482,890,337</u>	<u>(620,499,540)</u>	<u>1,826,737,122</u>
Capital expenditure	37,037,111	24,580,888	(155,105)	61,442,674
Impairment losses	-	(351,877)	-	(351,877)

  

<u>RON</u>	<u>Refining &amp; Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non-current assets	6,617,236,484	927,417,195	(2,382,638,599)	5,162,017,080
Total current assets	<u>1,223,451,872</u>	<u>1,000,039,586</u>	<u>(94,087,312)</u>	<u>2,129,404,146</u>
<b>TOTAL ASSETS</b>	<u>7,840,688,356</u>	<u>1,927,456,781</u>	<u>(2,476,723,911)</u>	<u>7,291,421,226</u>
Total equity	3,560,925,575	745,531,560	(2,396,028,393)	1,910,428,742
Total non-current liabilities	530,655,719	527,339,765	20,012,184	1,078,007,668
Total current liabilities	<u>3,749,107,062</u>	<u>654,585,456</u>	<u>(100,707,702)</u>	<u>4,302,984,816</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>7,840,688,356</u>	<u>1,927,456,781</u>	<u>(2,476,723,911)</u>	<u>7,291,421,226</u>
Capital expenditure	147,833,632	98,033,902	(618,102)	245,248,432
Impairment losses	-	(1,404,517)	-	(1,404,517)

- Inter - segment revenues are eliminated on consolidation.
- Transfer pricing between operating segments is determined based on market rules agreed between the segments. These transfer prices take into account the latest Crude/Refined products prices on markets adjusted by various margins / discounts taking into account quantity, quality, payment terms, transportation costs etc.

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**23. OPERATING SEGMENT INFORMATION (continued)**

**b) Geographical segments**

All the Group's production facilities are located in Romania. The following table provides an analysis of the Group's net revenues by geographical market:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
Romania	801,258,223	543,272,461	3,198,222,187	2,567,622,028
Export	473,165,221	509,871,657	1,888,638,980	2,035,152,716
<i>out of which</i>				
Petroleum products	433,006,895	458,136,690	1,728,347,022	1,820,669,597
Petrochemical products	40,158,326	53,734,967	160,291,958	214,483,121
<b>Total</b>	<b><u>1,274,423,444</u></b>	<b><u>1,153,144,118</u></b>	<b><u>5,086,861,177</u></b>	<b><u>4,602,774,746</u></b>

**24. RELATED PARTIES**

The ultimate parent of the Group is the "National Welfare Fund Samruk Kazyna" JSC, an entity with its headquarters in Kazakhstan, fully owned by State of Kazakhstan. The related parties and the nature of relationship is presented below:

<b>Name of related party</b>	<b>Nature of relationship</b>
KMG International N.V.	Majority Shareholder
Byron Shipping Ltd.	Company owned by KMG International Group
Byron Shipping SRL	Company owned by KMG International Group
Global Security Systems S.A.	Company owned by KMG International Group
KazMunayGas Engineering B.V.	Company owned by KMG International Group
KazMunayGas Trading AG	Company owned by KMG International Group
KMG Rompetrol S.R.L.	Company owned by KMG International Group
KMG Rompetrol Services Center (former Rompetrol Exploration and Production S.R.L.)	Company owned by KMG International Group
Midia Marine Terminal S.R.L.	Company owned by KMG International Group
Palplast S.A.	Company owned by KMG International Group
KazMunayGas –Engineering LLP (former Rominserv Kazakhstan LTD)	Company owned by KMG International Group
Rominserv S.A.	Company owned by KMG International Group
Rominserv Valves Iaifo SRL	Company owned by KMG International Group
Rominservices Them S.R.L.	Company owned by KMG International Group
Rompetro Albania Wholesale Sh.A.	Company owned by KMG International Group
Rompetro Bulgaria JSC	Company owned by KMG International Group
Rompetro Energy S.A.	Company owned by KMG International Group
Rompetro Financial Group S.R.L.	Company owned by KMG International Group
Rompetro Georgia LLC	Company owned by KMG International Group
Rompetro Moldova SA	Company owned by KMG International Group
Oilfield Exploration Business Solutions S.A. (former Rompetrol S.A.)	Company owned by KMG International Group
Rompetro Ukraine LLC	Company owned by KMG International Group
Rompetro Well Services S.A.	Company owned by KMG International Group
TRG Patrol Ticaret Anonim Sirketi	Company owned by KMG International Group
Dynelf SA	Associate of KMG International Group
Uzina Termoelectrica Midia S.A.	Associate of KMG International Group
Kazmotransflot	Company affiliated to KMG International Group
Tengizchevroil LLP	Company affiliated to KMG International Group

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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. Balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. The Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Name of related party	<u>Receivables and other assets</u>			
	<u>30-June-17</u>	<u>31-Dec-16</u>	<u>30-June-17</u>	<u>31-Dec-16</u>
	USD	USD	RON	RON
KazMunayGas Trading AG	4,758,347	4,628,871	18,984,959	18,476,139
Rominserv S.A.	4,013,913	4,935,299	16,021,534	19,699,246
KMG International N.V.	1,013,110	619,260	4,043,829	2,471,778
KMG Rompetrol S.R.L.	113,271,010	34,126,173	452,121,236	136,214,620
Oilfield Exploration Business Solutions S.A.	4,879,400	5,551,511	19,476,125	22,158,856
Rompetrol Well Services S.A.	293,164	464,799	1,170,164	1,855,245
KMG Rompetrol Services Center	13,405	78,554	53,506	313,548
Palplast S.A.	1,339,024	1,241,923	5,344,714	4,957,138
Rompetrol Bulgaria JSC	1,694,362	2,222,376	6,763,046	8,870,614
Rompetrol Moldova SA	5,680,447	11,175	22,673,504	44,605
KazMunayGas Engineering B.V.	3,573	3,573	14,262	14,262
Rompetrol Energy S.A.	601	558	2,399	2,227
Byron Shipping SRL	1,959	1,582	7,819	6,315
Rompetrol Albania Wholesale Sh A.	12,466	11,532	49,758	46,030
Midia Marina Terminal S.R.L.	298,658	327,356	1,192,093	1,308,641
Rominserv Valves Ialfo SRL	14,238	6,600	58,831	26,344
Rominserv Kazakhstan LTD	168,167	168,167	671,239	671,239
Rompetrol Ukraine LLC	8,118	7,802	32,403	31,142
Uzina Termoelectrica Midia S.A.	1,114,685	1,933,289	4,449,265	7,716,723
TRG Petrol Ticaret Anonim Sirketi	335,349	-	1,338,548	-
Global Security Systems S.A.	233,421	153,990	931,700	614,651
Tengizchevroil LLP	372,809	13,347	1,488,067	53,275
<b>Total</b>	<b><u>139,519,226</u></b>	<b><u>66,607,737</u></b>	<b><u>556,886,988</u></b>	<b><u>225,650,634</u></b>

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**24. RELATED PARTIES (continued)**

Name of related party	<u>Payables, loans and other liabilities</u>			
	<u>30-June-17</u>	<u>31-Dec-16</u>	<u>30-June-17</u>	<u>31-Dec-16</u>
	USD	USD	RON	RON
KazMunayGas Trading AG	451,867,430	440,019,411	1,803,628,847	1,756,337,479
Rominserv S.A.	32,560,457	28,249,425	129,965,054	112,757,580
KMG International N.V.	188,123,889	225,778,122	750,896,423	801,193,374
KMG Rompetrol S.R.L.	158,222,387	93,544,858	631,544,858	373,384,301
Oilfield Exploration Business Solutions S.A.	215,465	193,694	860,029	773,130
Rompetrol Exploration and Production S.R.L.	17	15	68	60
Rompetrol Well Services S.A.	8,688,249	8,021,032	34,679,146	32,015,949
KMG Rompetrol Services Center	1,128,892	1,080,058	4,505,972	4,311,052
Rompetrol Bulgaria JSC	108,498	603	493,070	2,407
Rompetrol Moldova SA	7,520,033	818,838	30,016,212	3,267,594
Rompetrol Financial Group S.R.L.	31,277,417	28,607,725	124,843,810	114,187,734
Byron Shipping Ltd.	2,211	2,045	8,825	8,183
Byron Shipping SRL	-	1,108	-	4,423
Midia Marine Terminal S.R.L.	40,577,720	35,442,825	161,965,969	141,470,036
Rominserv Valves Ialfo SRL	52,033	27,443	207,890	109,539
Uzina Termoelectrica Midia S.A.	2,897,270	2,896,375	11,564,453	11,560,881
Global Security Systems S.A.	449,219	514,482	1,793,058	2,053,475
<b>Total</b>	<b><u>923,869,654</u></b>	<b><u>865,197,839</u></b>	<b><u>3,687,625,326</u></b>	<b><u>3,453,437,177</u></b>

During 2017 and 2016, Rompetrol Rafinare Group entered into the following transactions with related parties:

Name of related party	<u>Sales and other revenues</u>			
	<u>30-June-17</u>	<u>30-June-16</u>	<u>30-June-17</u>	<u>30-June-16</u>
	USD	USD	RON	RON
KazMunayGas Trading AG	327,463,654	388,819,591	1,307,071,175	1,551,973,397
Rominserv S.A.	408,171	421,757	1,633,206	1,683,443
KMG Rompetrol S.R.L.	70,913	68,385	283,049	272,959
Oilfield Exploration Business Solutions S.A.	2,156	1,983	8,606	7,915
Rompetrol Well Services S.A.	303,356	265,258	1,210,845	1,058,777
Palplast S.A.	6,406	9,098	25,570	35,315
Rompetrol Bulgaria JSC	16,626,627	16,494,880	66,365,182	65,839,314
Rompetrol Moldova SA	79,347,626	47,224,644	316,716,049	188,497,187
TRG Peiroi Ticaret Anonim Sirkeli	7,911,827	-	31,580,057	-
KMG Rompetrol Services Center	65,750	-	262,441	-
Midia Marine Terminal S.R.L.	192,615	180,472	768,823	720,354
Byron Shipping SRL	10,094	11,130	40,290	44,425
Rominserv Valves Ialfo SRL	3,151	5,024	12,577	20,053
Uzina Termoelectrica Midia S.A.	8,353,430	6,931,451	33,342,716	27,868,887
Global Security Systems S.A.	52,809	54,773	210,787	218,628
	<b><u>440,818,585</u></b>	<b><u>460,488,446</u></b>	<b><u>1,759,531,373</u></b>	<b><u>1,838,039,632</u></b>

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**24. RELATED PARTIES (continued)**

Name of related party	Nature of transaction	<u>Purchases and other costs</u>			
		<u>30-June-17</u> USD	<u>30-June-16</u> USD	<u>30-June-17</u> RON	<u>30-June-16</u> RON
KazMunayGas Trading AG	Purchase of crude oil	905,335,551	817,797,738	3,613,646,852	3,284,239,671
Rominserv S.A.	Acquisition and maintenance of fixed assets	39,791,902	19,580,638	158,829,377	70,156,117
KMG International N.V.	Management services	4,736,381	760,780	18,905,265	3,036,693
KMG Rompetrol S.R.L.	Management services	12,618,554	13,322,350	50,366,958	53,176,160
Oilfield Exploration Business Solutions S.A.	Management services	11,781	29,572	47,024	118,037
Rompotrol Well Services S.A.	Interest on loan	158,414	15,807	632,309	63,094
Rompotrol Financial Group S.R.L.	Interest on loan	537,209	-	2,144,270	-
KMG Rompetrol Services Center	Shared services	3,167,557	-	12,643,304	-
Midia Marine Terminal S.R.L.	Handling services/Transit	8,468,358	10,064,077	33,801,451	40,170,763
Byron Shipping SRL	Shipping services	-	418	-	1,668
Rominserv Valves Ialfo SRL	Valves	46,785	47,505	186,742	189,618
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	13,362,452	11,331,313	53,336,227	45,228,936
Global Security Systems S.A.	Security and protection services	1,565,275	1,568,532	6,247,795	6,260,795
Tengizchevroil LLP	Liquefied Petroleum Gas	6,112	2,878,144	32,379	11,488,112
		<u>989,608,331</u>	<u>877,396,884</u>	<u>3,950,619,953</u>	<u>3,502,129,662</u>

The nature of sale transactions consists in sale of petroleum products. Sales to related parties include sales taxes.

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, through a Government Ordinance, the shareholder became Ministry of Economy Trade and Business Environment ("MECMA") until May 2013, when following MECMA reorganization the new holder became Ministry of Economy ("ME"). Later it was renamed the Ministry of Energy, Small and Medium Enterprises and Business Environment. Now, it is named the Ministry of Energy.

As a result, MFPR, MECMA, ME and Other Authorities are considered to be a related party of the Group. No entities in the Group have had any transactions during the period since MFPR, MECMA and ME became a related party or had balances as of period end, other than those arising from Romanian fiscal and legislative requirements, with MFPR, MECMA, ME and Other Authorities in Romania.

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**25. EARNINGS PER SHARE**

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	USD	USD	RON	RON
<b>Earnings</b>				
Profit/(Loss) for the year attributable to ordinary equity holders of the parent entity	(8,087,790)	21,460,687	(32,282,413)	85,660,328
<b>Number of shares</b>				
Weighted average number of shares for the purpose of basic earnings per share (see Note 11)	44,109,205,726	44,109,205,726	44,109,205,726	44,109,205,726
<b>Earnings per share (US cents/share)</b>				
Basis	(0.018)	0.049	(0.072)	0.196

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**26. CONTINGENCIES**

a) Related to the Parent's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 11.95 million) to be paid by the Parent based on an inspection carried out in 2003. These claims (the legal effects) were suspended by the local court for admission. Subsequently, a second suspension has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.) 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 27). The management is confident that the Parent is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Parent 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 Parent were challenged by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Parent cancelled such invoices. The Parent 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 Parent liable for paying such excises; the Parent 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 2.38 million). The management is confident that the likelihood of reversal of the earlier court decision is very low. No changes were incurred in 2017.

c) ANAF - DGAMC started in October 2016 the general fiscal audit referring to the fiscal period 2011-2015, taxes covered: income tax, VAT, WHT and excises. As of date of these financial statements, the tax audits are in progress, there are no effective information regarding any potential fiscal findings or tax adjustments. The Company subject to general fiscal audit is Rompetrol Rafinare SA.

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**27. 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 directors 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 orders 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 already 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 Supreme Court, 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.

On April 12, 2017, the companies submitted also their application by which they asked the dismissals of the allegations regarding the OUG 240/200 (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.

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**27. LEGAL MATTERS (continued)**

Finally, 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 privatisation and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), Intra-company's 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.

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. Based on our knowledge the Romanian authorities received this Notice on July 25, 2016. According to the above-mentioned treaties starting with July 25, 2016 commenced a 3 (three) to 6 (six) month period within the KMG companies and Romanian State may reach a settlement. Romanian authorities through the Ministry of Finance issued a response in October 2016 citing that all steps took by the Romanian state, through its public authorities, were conducted in compliance with the agreements put forward by KMG and KMGi in the notification of amicable settlement of the dispute.

After the expiration of this period, should a settlement between KMG and Romania fail to be reached, the case could 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.

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**27.LEGAL MATTERS (continued)**

**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.

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 benefited 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 is not final, both Rompetrol Rafinare and National Agency for Tax Administration appealed against it in front of the Supreme Court of Justice. The report of the Supreme Court of Justice has been communicated to Rompetrol Rafinare SA, according to which both appeals have been admitted in principle. A second term is established on 30 March 2017, in order to check the appeals under the other aspects. At this term, the Supreme Court of Justice established the first hearing term on September 29<sup>th</sup>, 2017 (it is the first term for which the parties will receive a subpoena).

**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 Supreme Court 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.

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.

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**27.LEGAL MATTERS (continued)**

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 Supreme Court. The first hearing is set by the Supreme Court 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.

Additionally, Rompetrol Rafinare launched a new legal enforcement procedure in front of the Constanța Court of Appeal, based on some new and much clearer provisions of law.

On July 6, 2015 Constanța 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.

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 is due to be 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.

On October 27, 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, 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 Constanța Court of Appeal decided to postpone the procedure until the Supreme Court will pronounce a decision in another related case (Case file no. 917/36/2013), regarding the appeal of Rompetrol Rafinare against court decision to reject our claims as lack of object, with last hearing term for October 21<sup>st</sup> 2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment, and sent the cause to the same first instance (Constanta Court of Appeal) for retrial. First hearing for retrial was set on September 7, 2017.

Rompetrol Rafinare requested the resetting the cause of pending, and the first hearing took place in the Constanța 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.

**Litigation between Rompetrol Downstream SRL and RATB (Bucharest public transport company)**

In 2011, following a public tender organized by RATB, the biggest public transport company in Romania serving Bucharest metropolitan area, Rompetrol Downstream was awarded with a 4-year frame Agreement (divided in 4 yearly contracts 2011-2015) for delivery of fuel for RATB fleet through an integrated system.

Rompetrol Downstream timely and fully observed its obligation to supply RATB with needed quantities of fuel during those 4 years, however the related IT system was implemented on a gradual basis till 16 until September 2015.

On 16 October 2015 RATB submitted to Court the claim for damages in amount of RON 62.4 million (approximately USD 15 million). The amount concerns the enforcement of penalty clause in amount of 15% of frame contract turnover for not observing the contractual obligations relating to the implementation of the IT system.

On 27 October 2015, based on the tender book terms and conditions, RATB asked the enforcement of the bank letter guarantee provided by DWS for the amount of RON 5.7 million.

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**27.LEGAL MATTERS (continued)**

The first hearing took place on February 23, 2016. The decision was released on April 22, 2016 and the Court rejected the claim of RATB for not performing the preliminary mandatory formalities. The decision is subject of appeal. The Bucharest Court of Appeal admitted both Parties appeals, repealed the 1<sup>st</sup> court decision and sent the file again to the 1<sup>st</sup> court (Bucharest Tribunal) for judgement on the merits of the case.

Besides the claim above mentioned, in June 2016 Rompetrol Downstream received another 3 similar claims in an aggregate amount of RON 136 million by which RATB asked the same amount for each contractual year (Cases no. 2-4). The Company challenged the claims within the provided term. On November 14 the Court ruled in the Company's favour and rejected the RATB' claim as being non-admissible as a result of admittance of the procedural objection raised by the Company (this decision being subject of appeal). RATB filed in the appeal against the 1<sup>st</sup> court decision and the appeal was rejected by the superior court on the 20<sup>th</sup> of April 2017. The decision in this case is final.

The others two files had the following hearings: October 25, 2016 when the Bucharest Tribunal admitted the Company' request and suspended the judgment of the file until the date when the Case no. 1 shall be irrevocably settled by the court (Case no. 3); and November 1, 2016 when the Court ruled in the Company's favour and rejected the RATB' claim as being non-admissible as a result of admittance of the procedural objection raised by the Company (Case no. 4) (this case passed to the appeal stage and the first hearing was scheduled for January 25, 2017). The Court rejected the appeal as groundless. The decision is final.

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

On November 19<sup>th</sup>, 2015, it was finalized the audit of the local taxes, done 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 31.12.2009 and 31.12.2011, namely that because the revaluation was not made for all fixed assets accounted for in the account 212 "Construction", in their view it was made without observing the accounting regulation 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 penalties related 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).

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. This solution is based on Navodari Local Council Decision no.435/December 21<sup>st</sup>, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties.

Rompetrol Rafinare submitted in court the challenge against this decision, and also another action for partial annulment of Navodari Local Decision no.435/2015 at Constanta Court of Appeal. On March 16<sup>th</sup>, 2017 Constanta Court of Appeal dismissed the challenge submitted by Rompetrol Rafinare against the decision issued by Navodari City Hall. The solution will be appealed.

The second action, submitted by Rompetrol Rafinare for partial annulment of Navodari Local Council Decision no. 435/December 21<sup>st</sup>, 2015 was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term is set on January 16<sup>th</sup>, 2017, when the appeal was rejected.

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 defense 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

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with the Supreme Court of Justice. The first hearing term before the Supreme Court was not yet been scheduled.

**27.LEGAL MATTERS (continued)**

**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 safe access and operation of ships, the company initiated several legal remedies against it, as follows:

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 mil) 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 1,570,000 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).

**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, resulting in a fire, which was extinguished by Refinery' staff and firemen from private and public services. 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, injury and the decease of employees. 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. As a result of the completion of the initial phase of the files, of preliminary chamber procedure, the court decided on 01.03.2017: have been accepted in part the applications and the exceptions made by the defendants, it has been found the relative nullity of the indictment no. 586/P/2016 07.12.2016 from the Prosecutor's Office under the Constanta Court of Appeal, it has been found the irregularity that attracts the impossibility to the establishment of the object or judgment on the indictment no. 586/P/2016 of 7.12.2016, prosecutor must communicate to the judge of preliminary room whether to maintain the provision referred to in the judgment or request the refund case, within 5 days from the date of the communication of the solution. By the final conclusion of Preliminary Chamber procedure, no. 328 / 03.21.2017 communicated to Rompetrol Rafinare on March 27, 2017 the court ordering, considering the fact that the prosecutor did not reply within

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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.

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. On the other hand, it was admitted the request filed by RIS 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.

Also on May 25, 2017 Rompetrol Rafinare and RIS 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. Against this reply the companies will file an application to the court.

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**28.COMMITMENTS**

**Environmental commitments**

The principal activity of Rompetrol Rafinare SA (including Vega Refinery) of refinery petroleum products and Rompetrol Petrochemicals has inherent effects on the environment in terms of effluents into land, water and air. The environmental effects of the Group's activities are monitored by specialized authorities and the management of the Group.

The Company has recognized a provision for restoration cost at its Vega location, see Note 16.

As of June 30, 2017, and December 31, 2016 Rompetrol Rafinare S.A. has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega obligations, which have been provisioned.

At the end of March 2017, Rompetrol Rafinare SA has achieved its annual compliance with regulatory requirements for greenhouse gas emissions (CO<sub>2</sub>) by returning a number of allowances equivalent to 2016 emissions.

**Other commitments**

As of June 30, 2017, Rompetrol Rafinare S.A. has contracted capital commitments for projects related to capital maintenance, authorizations and compliance with Euro standards at the Petromidia refinery of USD 48.5 million (2016: USD 55.3 million). As of June 30, 2017, Rompetrol Downstream S.R.L has contracted capital commitments of USD 4.89 million (2016: USD 4.27 million).

Rompetrol Downstream S.R.L. has certain concession and rental agreements with local authorities and other companies/individuals in Romania for plots of land. Usually the conditions for these agreements are the following: terms from 5 to 49 years, fixed or variable fees per year. According to these agreements, the approximate amount to be paid in 2018 is USD 5.32 million within one year, and USD 0.32 million after one year but not more than five years (USD 5.03 million in 2017).

**Sale and purchase commitments**

As of June 30, 2017, the main Group's commitments relate to Rompetrol Rafinare S.A. which has non-group commitments for purchases of raw materials and utilities of USD 2,460.9 million (2016: USD 2,102.8 million) and for sales of petroleum, petrochemicals products and utilities sales of USD 1,125.75 million (2016: USD 1,724.08 million).

**29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**29.1. Capital risk management**

The Group manages its capital to ensure that entities in the Group 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 Group consists of bank debt and shareholder loans (see Note 15), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the "Consolidated Statement of Changes in the Shareholders' Equity".

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

**29.2. Gearing ratio**

The gearing ratio at the year-end was as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Debt (excluding shareholder loans and related parties)	236,917,423	214,051,083
Cash and cash equivalents	<u>(6,807,345)</u>	<u>(15,810,298)</u>
Net debt	230,110,078	198,240,785
Equity (including shareholder loans and related parties)	708,041,120	746,678,231
Net debt to equity ratio	0.33	0.27

**29.3. Categories of financial instruments and fair values**

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
<b>Financial assets</b>		
Trade and other receivables	371,108,919	283,774,358
Long-term receivables	1,604,312	1,480,888
Available for sale investments	18,583	18,583
Derivative financial instruments	401,671	5,340
Cash and cash equivalents	<u>6,807,345</u>	<u>15,810,298</u>
<b>TOTAL FINANCIAL ASSETS</b>	<b>379,940,830</b>	<b>281,089,467</b>
<b>Financial liabilities</b>		
Long-term borrowings	-	193,162,805
Derivative financial instruments	-	323,130
Short term borrowings from shareholders	233,733,109	268,253,969
Other non-current liabilities	190,173	177,110
Trade and other payables	805,743,933	725,513,525
Short-term borrowings banks	<u>236,817,423</u>	<u>20,869,259</u>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,276,584,638</b>	<b>1,208,318,797</b>

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

- Advances to suppliers
- VAT to be recovered
- Profit tax receivables
- Other taxes receivables

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

- Advances from customers
- Excises taxes
- Special found tax for oil products
- VAT payable
- Profit tax payable
- Salary taxes payable
- Other taxes
- Deferred revenues;

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

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

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 Group enters into derivative financial instruments with various counterparties. As at 30 June 2017, the marked to market value of derivative position is for financial instruments recognized at fair value.

**29.4. Fair value hierarchy**

The Group 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.

	<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade and other receivables	371,108,919	371,108,919	-	-
Long-term receivables	1,604,312	1,604,312	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	401,671	-	401,671	-
Cash and cash equivalents	<u>6,807,345</u>	<u>6,807,345</u>	=	=
<b>TOTAL FINANCIAL ASSETS</b>	<u><b>379,940,830</b></u>	<u><b>379,539,159</b></u>	<u><b>401,671</b></u>	=
<b>Financial liabilities</b>				
Short term borrowings from shareholders	233,733,109	233,733,109	-	-
Other non-current liabilities	190,173	190,173	-	-
Trade and other payables	805,743,933	805,743,933	-	-
Short-term borrowings banks	<u>236,917,423</u>	<u>236,917,423</u>	=	=
<b>TOTAL FINANCIAL LIABILITIES</b>	<u><b>1,276,584,638</b></u>	<u><b>1,276,584,638</b></u>	=	=
	<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade and other receivables	263,774,358	263,774,358	-	-
Long-term receivables	1,480,888	1,480,888	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	5,340	-	5,340	-
Cash and cash equivalents	<u>15,810,298</u>	<u>15,810,298</u>	=	=
<b>TOTAL FINANCIAL ASSETS</b>	<u><b>281,089,467</b></u>	<u><b>281,084,127</b></u>	<u><b>5,340</b></u>	=
<b>Financial liabilities</b>				
Long-term borrowings	193,162,805	193,162,805	-	-
Derivative financial instruments	323,130	-	323,130	-
Short term borrowings from shareholders	268,253,969	268,253,969	-	-
Other non-current liabilities	177,110	177,110	-	-
Trade and other payables	725,513,525	725,513,525	-	-
Short-term borrowings banks	<u>20,888,258</u>	<u>20,888,258</u>	=	=
<b>TOTAL FINANCIAL LIABILITIES</b>	<u><b>1,208,318,797</b></u>	<u><b>1,207,895,667</b></u>	<u><b>323,130</b></u>	=

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

During the reporting period ending 30 June 2017 and 31 December 2016, 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.

**29.5 Derivative financial instruments**

The Group uses different commodity derivatives as part of price risk management in trading of crude oil and products.

**Balance Sheet:**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Derivative financial asset	401,671	5,340
Derivative financial liability	-	(323,130)
Net position - asset/(liability)	401,671	(317,790)

**Income Statement:**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Unrealised (gains)	-	201,000
Net position - (gain)/loss - in Cost of sales	-	201,000
Realized losses - net	1,020,476	(1,494,534)
Total position - loss/(gain) - in Cost of sales	1,020,476	(1,293,534)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Derivative asset/(liability) 2016	(317,790)	(626,926)
Forex unrealized (hedging of forex)	-	-
Cash payments	5,576	1,426,383
Reserves	713,885	(1,117,247)
Derivative asset/(liability) 2017	401,671	(317,790)

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.

**29.6 Market risk**

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.

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

**29.7. Foreign currency risk management**

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products sales are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in other currencies, which are translated at the prevailing exchange rate at each balance sheet date. The unrealized 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.

**29.8. 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 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. Details of the interest rate terms, which apply to the Group's borrowings, are provided in Notes 12 and 15.

**29.9. Commodity price risk**

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

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

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

**29.10. Credit risk**

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

**Trade receivables**

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to KazMunayGas Trading AG, a related party represent 26% of the Group's revenues. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

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

**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.

**30. SUBSEQUENT EVENTS**

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

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

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

Facilities granted to Rompetrol Rafinare S.A. by Bancpost in amount of EUR 30 million, respectively EUR 27.96 million have been extended until July 31, 2018.

On July 17, 2017, Rompetrol Rafinare SA and the affiliates KMG International NV and Oilfield Exploration Business Solutions SA received an ordinance issued by DIICOT which mandates the continuation of the criminal investigation of deeds attributed to the 1998-2003 period and of the grounds for the company's civil liability for part thereof.

As before, the company will further cooperate with the authorities in a transparent way with the aim that the investigations complete in due course and in full observance of the company's rights.

This new procedural deed does not affect the daily activity of Rompetrol refineries the operations of which are being carried out in the normal course.

However, the company continues to work with its local and international legal advisors to use all legal means to protect its investments, activities and current operations as well as its reputation.

The company will provide further information once there will be clarified the aspects related to the company's liability for the deeds currently pending investigation.

The national oil and gas company of Kazakhstan - KazMunayGas became in August 2007 the major shareholder, and in 2009 the sole shareholder, of The Rompetrol Group (currently named KMG International NV) that the company is a part of.