ROMPETROL RAFINARE SA

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

JUNE 30, 2018

CONTENTS

ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30, 2018
(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))

	Notes	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Intangible assets	3	7,244,814	8,252,455	29,003,165	33,037,054
Goodwill	4	82,871,706	82,871,706	331,760,302	331,760,302
Property, plant and equipment	5	1,222,252,201	1,254,559,178	4,893,042,236	5,022,376,757
Available for sale investments	7	18,583	18,583	74,393	74,393
Long-term receivable		2,957,288	1,599,013	11,838,911	6,401,329
Deferred tax asset	13	36,221,657	36,221,657	145,006,159	145,006,159
Total non current assets		1,351,566,249	1,383,522,592	5,410,725,166	5,538,655,994
Inventories, net	8	345,655,881	342,623,825	1,383,764,187	1,371,625,961
Trade and other receivables	9	466,498,894	436,209,507	1,867,535,023	1,746,277,520
Derivative financial instruments	29.5	-	-	-	-
Cash and cash equivalents	10	14,356,256	12,592,193	57,472,399	50,410,326
Total current assets		826,511,031	791,425,525	3,308,771,609	3,168,313,807
TOTAL ASSETS		2,178,077,280	2,174,948,117	8,719,496,775	8,706,969,801
Share capital	11	1,463,323,897	1,463,323,897	5,858,124,557	5,858,124,557
Share premium	11	74,050,518	74,050,518	296,446,439	296,446,439
Revaluation reserve, net	11	143,432,063	146,431,777	574,201,578	586,210,333
Other reserves	11	(4,153,668)	(4,153,668)	(16,628,379)	(16,628,379)
Other reserves - Hybrid loan	11	1,059,285,995	1,059,285,995	4,240,639,624	4,240,639,624
Effect of transfers with equity holders	11	(596,832,659)	(596,832,659)	(2,389,300,184)	(2,389,300,184)
Accumulated losses		(1,449,618,426)	(1,473,246,436)	(5,803,257,445)	(5,897,847,458)
Current year result		4,250,886	19,552,126	17,017,572	78,273,027
Equity attributable to equity holders of the parent		693,738,606	688,411,550	2,777,243,762	2,755,917,959
Non-Controlling interest		15,494,713	15,934,422	62,029,985	63,790,272
Total equity		709,233,319	704,345,972	2,839,273,747	2,819,708,231
Long-term borrowings from banks	12	240,000,000	-	960,792,000	-
Hybrid loans - interest portion	11	14,687,203	14,687,203	58,797,280	58,797,280
Deferred tax liabilities	13	4,297,506	3,715,861	17,204,206	14,875,706
Provisions	16	80,635,060	85,001,042	322,806,336	340,284,672
Other non-current liabilities		186,647	207,676	747,204	831,389
Total non-current liabilities		339,806,416	103,611,782	1,360,347,026	414,789,047
Trade and other payables	14	949,550,129	966,666,960	3,801,334,033	3,869,857,842
Derivative financial instruments	29.5	3,470,067	48,387	13,891,719	193,708
Short-term borrowings from shareholders and related parties	15	142,422,474	176,211,784	570,159,888	705,428,636
Short-term borrowings from banks	15	33,594,875	224,063,232	134,490,362	896,992,337
Total current liabilities		1,129,037,545	1,366,990,363	4,519,876,002	5,472,472,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,178,077,280	2,174,948,117	8,719,496,775	8,706,969,801

CATALIN DUMITRU
PRESIDENT of the BOARD of DIRECTORS

ROMPETROL RAFINARE S.A.

YEDIL UTEKOV
GENERAL MANAGER

VASILE-GABRIEL MANOLE
FINANCIAL MANAGER

Prepared by,

Cristina Ana Dica
Financial Reporting Manager

The accompanying notes from 1 to 30 are an integral part of these consolidated financial statements.
English translation is for information purposes only. Romanian language text is the official text for submission.

ROMPETROL RAFINARE SA
CONSOLIDATED INCOME STATEMENT
for the year ended at June 30, 2018
(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))

	Notes	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Revenues	17	1,986,047,716	1,274,423,444	7,950,744,821	5,101,899,374
Cost of sales	18	(1,849,997,164)	(1,175,922,909)	(7,406,093,648)	(4,707,572,183)
Gross profit		136,050,552	98,500,535	544,651,173	394,327,191
Selling, general and administrative expenses, including logistic costs	19	(101,103,301)	(88,165,446)	(404,746,846)	(352,952,730)
Other operating income	20	12,930,653	322,475	51,765,283	1,290,963
Other operating expenses	20	(20,010,968)	(3,222,877)	(80,109,908)	(12,902,143)
Operating profit		27,866,936	7,434,687	111,559,702	29,763,281
Finance cost	21	(27,755,071)	(28,805,809)	(111,111,874)	(115,318,295)
Finance income	21	5,579,674	15,136,581	22,337,109	60,596,275
Foreign exchange loss, net	21	(3,192,346)	(380,525)	(12,779,918)	(1,523,356)
Profit/(loss) before income tax		2,499,193	(6,615,066)	10,005,019	(26,482,095)
Income tax	23	279,549	(415,070)	1,119,119	(1,661,650)
Profit/(loss) for the year		2,778,742	(7,030,136)	11,124,138	(28,143,745)
Attributable to:					
Equity holders of the parent		4,250,886	(8,087,790)	17,017,572	(32,377,850)
Non-Controlling interests		(1,472,144)	1,057,654	(5,893,434)	4,234,105
Earnings per share *(US cents/share)*					
Basic	25	0.010	(0.018)	0.040	(0.072)

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(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))

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Net Gain/(loss) for the year	2,778,742	(7,030,136)	11,124,138	(28,143,745)
Other comprehensive income				
Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):				
Hedge reserve	-	713,885	-	2,857,896
Net other comprehensive income to be reclassified to income/(loss) statement in subsequent periods	-	713,885	-	2,857,896
Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):				
Revaluation of buildings category in property plant and equipment	3,726,620	-	14,918,777	-
Deferred income tax related to revaluation, recognised in equity	(581,645)	-	(2,328,499)	-
Effect of change in accounting policies-property plant and equipment on retained earnings	(5,112,254)		(20,465,886)	
Effect of change in accounting policies-property plant and equipment on revaluation reserve	5,112,254		20,465,886	
Net other comprehensive income/(loss) not to be reclassified to income statement in subsequent periods	3,144,975	-	12,590,278	-
Total other comprehensive income/ (loss) for the year, net of tax	3,144,975	713,885	12,590,278	2,857,896
Total comprehensive income for the year, net of tax	5,923,717	(6,316,251)	23,714,416	(25,285,849)
Attributable to:				
Equity holders of the parent	7,395,861	(7,373,905)	29,607,850	(29,519,954)
Non-Controlling interests	(1,472,144)	1,057,654	(5,893,434)	4,234,105
Total comprehensive income for the year	5,923,717	(6,316,251)	23,714,416	(25,285,849)

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ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended at June 30, 2018
(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))

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Profit/(loss) before income tax	**2,499,193**	**(6,615,066)**	**10,005,019**	**(26,482,095)**
Adjustments for:				
Depreciation and amortisation	52,121,545	47,129,958	208,658,181	188,675,357
Provisions for receivables and inventories (incl write-off)	8,833,578	3,195,053	35,363,462	12,790,756
Impairment for property, plant and equipment (incl write-off)	(8,943,534)		(35,803,650)	-
Loss on revaluation of tangible assets	11,174,920		44,736,557	-
Provision for environmental and other liabilities	(3,508,734)		(14,046,515)	-
Late payment interest	257,637	64,289	1,031,398	257,368
Other financial income	(371,861)	(159,562)	(1,488,671)	(638,775)
Interest income	(5,207,813)	(14,977,019)	(20,848,438)	(59,957,500)
Interest expense and bank charges	26,123,053	27,951,332	104,578,418	111,897,568
Gain on sale or disposal of property, plant and equipment	(265,089)	(219,134)	(1,061,231)	(877,259)
Unrealised foreign exchange (gain)/loss	(3,197,434)	8,508,044	(12,800,288)	34,060,254
Cash from operations before working capital changes	**79,515,461**	**64,877,895**	**318,324,242**	**259,725,675**
Net working capital changes:				
Receivables and prepayments	(35,610,009)	(318,090,528)	(142,557,548)	(1,273,411,810)
Inventories	(7,581,022)	1,069,980	(30,349,105)	4,283,451
Trade and other payables	(10,382,977)	278,328,097	(41,566,170)	1,114,230,874
Change in working capital	**(53,574,008)**	**(38,692,451)**	**(214,472,823)**	**(154,897,485)**
Income tax paid	-	-	-	-
Cash (paid)/received for derivatives, net	**3,421,680**	**(5,576)**	**13,698,012**	**(22,322)**
Net cash provided by/(used in) operating activities	**29,363,133**	**26,179,868**	**117,549,431**	**104,805,868**
Cash flows from investing activities				
Purchase of property, plant and equipment	(16,727,925)	(28,650,486)	(66,966,904)	(114,696,493)
Purchase of intangible assets	(609,774)	(74,505)	(2,441,108)	(298,266)
Proceeds from sale of property, plant and equipment	267,559	246,958	1,071,119	988,647
Net cash used in investing activities	**(17,070,140)**	**(28,478,033)**	**(68,336,893)**	**(114,006,112)**
Cash flows from financing activities				
Cash pooling movement	(5,334,994)	17,910,962	(21,357,581)	71,702,954
Long - term loans received from banks	285,420		1,142,622	-
Short - term loans (repaid to)/ received from shareholders	(34,139,715)	(26,519,206)	(136,671,521)	(106,164,337)
Short - term loans/ (repaid to) received from banks, net	49,184,587	22,879,423	196,900,657	91,593,194
Interest and bank charges paid, net	(20,524,228)	(20,975,967)	(82,164,642)	(83,973,089)
Net cash used in financing activities	**(10,528,930)**	**(6,704,788)**	**(42,150,465)**	**(26,841,278)**
Increase / (Decrease) in cash and cash equivalents	**1,764,063**	**(9,002,953)**	**7,062,073**	**(36,041,522)**
Cash and cash equivalents at the beginning of period	**12,592,193**	**15,810,298**	**50,410,326**	**63,293,366**
Cash and cash equivalents at the end of the period	**14,356,256**	**6,807,345**	**57,472,399**	**27,251,844**

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ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended at June 30, 2018
(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	Revaluation reserves	Deferred income tax related to revaluation, recognized in equity	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	(1,473,246,436)			(596,832,659)	996,547,851	463,843,171	14,781,091	478,624,262
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	1,463,323,897	74,050,518	(1,481,334,226)	-	-	(596,832,659)	997,261,736	456,469,266	15,838,745	472,308,011

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognized in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-Controlling interest	Total equity
December 31, 2017	1,463,323,897	74,050,518	(1,453,694,310)	146,431,777		(596,832,659)	1,055,132,327	688,411,550	15,934,422	704,345,972
Net profit for 2018	-	-	4,250,886	-	-	-	-	4,250,886	(1,472,144)	2,778,742
Other comprehensive income	-	-	5,112,254	(1,385,634)	(581,645)	-	-	3,144,975	-	3,144,975
Total comprehensive income	-	-	9,363,140	(1,385,634)	(581,645)	-	-	7,395,861	(1,472,144)	5,923,717
Effect of applying IFRS 9			(1,036,370)					(1,036,370)		(1,036,370)
Effect of change in accounting policies-property plant and equipment	-	-		(1,032,435)			-	(1,032,435)	1,032,435	-
June 30, 2018	1,463,323,897	74,050,518	(1,445,367,540)	144,013,708	(581,645)	(596,832,659)	1,055,132,327	693,738,606	15,494,713	709,233,319

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Amount in RON

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognized in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2016	5,858,124,557	296,446,439	(5,897,847,457)	-	-	(2,389,300,184)	3,989,480,012	1,856,903,367	59,173,142	1,916,076,509
Net loss for 2017	-	-	(32,377,850)	-	-	-	-	(32,377,850)	4,234,105	(28,143,745)
Other comprehensive income	-	-	-	-	-	-	2,857,896	2,857,896	-	2,857,896
Total comprehensive income	-	-	(32,377,850)	-	-	-	2,857,896	(29,519,954)	4,234,105	(25,285,849)
June 30, 2017	5,858,124,557	296,446,439	(5,930,225,307)	-	-	(2,389,300,184)	3,992,337,908	1,827,383,413	63,407,247	1,890,790,660

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognized in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2017	5,858,124,557	296,446,439	(5,819,574,431)	586,210,333	-	(2,389,300,184)	4,224,011,245	2,755,917,959	63,790,272	2,819,708,231
Net profit for 2018	-	-	17,017,572	-			-	17,017,572	(5,893,434)	11,124,138
Other comprehensive income	-	-	20,465,886	(5,547,109)	(2,328,499)		-	12,590,278	-	12,590,278
Total comprehensive income	-	-	37,483,458	(5,547,109)	(2,328,499)		-	29,607,850	(5,893,434)	23,714,416
Effect of applying IFRS 9	-	-	(4,148,900)	-	-		-	(4,148,900)	-	(4,148,900)
Effect of change in accounting policies-property plant and equipment	-	-	-	(4,133,147)	-		-	(4,133,147)	4,133,147	-
June 30, 2018	5,858,124,557	296,446,439	(5,786,239,873)	576,530,077	(2,328,499)	(2,389,300,184)	4,224,011,245	2,777,243,762	62,029,985	2,839,273,747

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1. GENERAL

Rompetrol 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.

Rompetrol 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 2018 and December 2017 was 1,906 and 1,887 respectively.

The registered address of Rompetrol Rafinare S.A. is Bd. Navodari no. 215, Navodari, Constanta, Romania. Rompetrol Rafinare S.A. and its subsidiaries are part of KMG International N.V. with its registered address located at World Trade Centre, Strawinskylaan 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, 2018, as endorsed by the European Union ("EU").

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, available-for-sale (AFS) financial assets and buildings and constructions 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. As at June 30, 2018 and December 31, 2017 the Group reported net assets including non-controlling interest, of USD 709.2 million and USD 704.3 million respectively. The Group reported for the year ended June 30, 2018 a profit of USD 4.2 million and for the year ended June 30, 2017 reported a loss of USD 8.1 million respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies

New and amended standards and interpretations

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

- **IFRS 9 Financial Instruments: Classification and Measurement**
  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 adopts the new standard IFRS 9 on the required effective date and will not restate comparative information.
  Overall, the Group didn't book a significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

  a) Classification and measurement
  The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

  b) Hedge accounting
  The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 did not have a significant impact on Group's financial statements.

  c) Impairment
  IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group applied the simplified approach and recorded the lifetime loss for trade receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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.
- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The group applies the new standard at its effective date of application, using the modified retrospective method. During 2017, the Group performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.
  The Group is involved in refining and petrochemicals, wholesale and retail of petroleum products and related services (oilfield, logistics, maintenance, quality control).
  The Group analysed the main revenue streams which are comprised sales of crude oil, petroleum products and petrochemicals, under the main business segments: Downstream (retail and wholesale) and refinery, by applying the "five steps" model prescribed by IFRS 15:
  1. Identify the contract(s) with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue when (or as) the entity satisfies a performance obligation

  Based on the results of review of contractual terms of principal types of contracts pertaining to each material revenue streams, the Group concluded that IFRS 15 does not have a significant impact compared with current revenue recognition.

d) Standards issued but not yet in force

The Group did not adopt the following standards / interpretations ahead of schedule:

- **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. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment to the financial position or performance of the Group.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.
  These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no significant impact from application of this standard.

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

***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2018 closing exchange rate of RON 4.0033= USD 1, for both 2018 and 2017 amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 30 June 2018.

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.

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 acquired 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(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))

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Property, plant and equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including 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.

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

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

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

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

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 100 years
Storage tanks	20 to 30 years
Tank cars	25 years
Machinery and other equipment	3 to 20 years
Gas pumps	8 to12 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Computers	3 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Assets 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under collective labor 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 information: 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.

- *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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized 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.

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 fair value fluctuation relating to certain firm commitments and forecasted transactions.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value hedge

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

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss (see note 18).

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

Cash Flow Hedge

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

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see note 18).

z) Emission Rights

CO_2 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 Rafinare SA received its quota allocation for 2017 and the one for 2018 has been received at the end of February 2018. 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 will have in its accounts in CO_2 EU Register at the time of annual compliance (April 2018). The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective group companies. Income is recognized 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.

(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))

3. INTANGIBLE ASSETS

Amounts in USD

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2017	33,458,411	38,771,280	4,022,352	76,252,043
Additions	441,718	33,165	858,246	1,333,129
Transfers from CIP	37,861	96,565	(134,426)	-
Transfers and reclassifications*	735,252	275,304	16,365	1,026,921
Closing balance as of December 31, 2017	34,673,242	39,176,314	4,762,537	78,612,093
Additions	159,437	3,241	447,096	609,774
Transfers from CIP	783,576	1,913	(785,489)	-
Transfers and reclassifications*	-	-	(903,722)	(903,722)
Closing balance as of June 30, 2018	35,616,255	39,181,468	3,520,422	78,318,145
Accumulated amortization				
Opening balance as of January 1, 2017	(32,909,484)	(35,553,417)	(523,380)	(68,986,281)
Charge for the year	(615,276)	(758,081)	-	(1,373,357)
Accumulated amortization of disposals	-	-	-	-
Closing balance as of December 31, 2017	(33,524,760)	(36,311,498)	(523,380)	(70,359,638)
Charge for the year	(331,623)	(382,070)	-	(713,693)
Closing balance as of June 30, 2018	(33,856,383)	(36,693,568)	(523,380)	(71,073,331)
Net book value				
As of December 31, 2017	1,148,482	2,864,816	4,239,157	8,252,455
As of June 30, 2018	1,759,872	2,487,900	2,997,042	7,244,814

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

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

Amounts in RON

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2017	133,944,057	155,213,065	16,102,682	305,259,804
Additions	1,768,330	132,769	3,435,816	5,336,915
Transfers from CIP	151,569	386,579	(538,148)	-
Transfers and reclassifications*	2,943,434	1,102,125	65,514	4,111,073
Closing balance as of December 31, 2017	138,807,390	156,834,538	19,065,864	314,707,792
Additions	638,274	12,975	1,789,859	2,441,108
Transfers from CIP	3,136,890	7,658	(3,144,548)	-
Transfers and reclassifications*	-	-	(3,617,870)	(3,617,870)
Closing balance as of June 30, 2018	142,582,554	156,855,171	14,093,305	313,531,030
Accumulated amortization				
Opening balance as of January 1, 2017	(131,746,537)	(142,330,994)	(2,095,247)	(276,172,778)
Charge for the year	(2,463,134)	(3,034,826)	-	(5,497,960)
Accumulated amortization of disposals	-	-	-	-
Closing balance as of December 31, 2017	(134,209,671)	(145,365,820)	(2,095,247)	(281,670,738)
Charge for the year	(1,327,586)	(1,529,541)	-	(2,857,127)
Closing balance as of June 30, 2018	(135,537,257)	(146,895,361)	(2,095,247)	(284,527,865)
Net book value				
As of December 31, 2017	4,597,719	11,468,718	16,970,617	33,037,054
As of June 30, 2018	7,045,297	9,959,810	11,998,058	29,003,165

(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))

4. GOODWILL

The carrying value of goodwill as of 30 June 2018 and 31 December 2017 was USD 82,871,706 (RON: 331,760,302).

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 2017 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

	Land	Buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost						
As of January 1, 2017	70,158,567	908,285,818	1,192,084,752	125,139,685	103,305,396	2,398,974,218
Acquisitions	-	2,077	416,670	470,497	83,137,840	84,027,084
Transfers from CIP	-	16,370,701	42,382,143	4,930,107	(63,682,951)	-
Revaluation adjustment	-	129,342,052	-	-	-	129,342,052
Disposals	-	(605,372)	(2,349,942)	(10,727,083)	(836)	(13,683,233)
Transfers and reclassifications*	-	(382,107,113)	(1,641,542)	(1,439,050)	(115,663)	(385,303,368)
As of December 31, 2017	70,158,567	671,288,163	1,230,892,081	118,374,156	122,643,786	2,213,356,753
Additions	-	31,625	112,715	24,901	16,558,684	16,727,925
Transfers from CIP	-	6,700,623	16,580,543	4,395,770	(27,676,936)	-
Revaluation adjustment	-	(7,448,300)	-	-	-	(7,448,300)
Disposals	-	-	(247,483)	(290,213)	-	(537,696)
Transfers and reclassifications*	-	(5,967,855)	(8,622,132)	76,474	803,712	(13,709,801)
As of June 30, 2018	70,158,567	664,604,256	1,238,715,724	122,581,088	112,329,246	2,208,388,881
Accumulated depreciation & Impairment						
As of January 1, 2017	(78,373)	(485,043,631)	(648,121,975)	(98,307,717)	(29,275,609)	(1,260,827,305)
Charge for the year	-	(27,057,742)	(61,735,456)	(5,895,439)	-	(94,688,637)
Accumulated depreciation of disposals	-	261,906	2,284,904	10,543,223	-	13,090,033
Impairment	-	(297,979)	-	-	(220,800)	(518,779)
Transfers and reclassifications*	-	382,107,113	-	2,040,000	-	384,147,113
As of December 31, 2017	(78,373)	(130,030,333)	(707,572,527)	(91,619,933)	(29,496,409)	(958,797,575)
Charge for the year	-	(18,043,323)	(30,322,881)	(3,041,648)	-	(51,407,852)
Accumulated depreciation of disposals	-	-	247,483	287,743	-	535,226
Impairment	-	8,943,534	-	-	-	8,943,534
Transfers and reclassifications*	-	14,589,987	-	-	-	14,589,987
As of June 30, 2018	(78,373)	(124,540,135)	(737,647,925)	(94,373,838)	(29,496,409)	(986,136,680)
Net book value as of December 31, 2017	70,080,194	541,257,830	523,319,554	26,754,223	93,147,377	1,254,559,178
Net book value as of June 30, 2018	70,080,194	540,064,121	501,067,799	28,207,250	82,832,837	1,222,252,201

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

(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))

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Amounts in RON

	Land	Buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost						
As of January 1, 2017	280,865,791	3,636,140,615	4,772,272,888	500,971,701	413,562,492	9,603,813,487
Acquisitions	-	8,315	1,668,055	1,883,541	332,825,715	336,385,626
Transfers from CIP	-	65,536,827	169,668,433	19,736,697	(254,941,957)	-
Revaluation adjustment	-	517,795,037	-	-	-	517,795,037
Disposals	-	(2,423,486)	(9,407,523)	(42,943,731)	(3,347)	(54,778,087)
Transfers and reclassifications*	-	(1,529,689,405)	(6,571,585)	(5,760,949)	(463,034)	(1,542,484,973)
As of December 31, 2017	280,865,791	2,687,367,903	4,927,630,268	473,887,259	490,979,869	8,860,731,090
Additions	-	126,604	451,232	99,686	66,289,380	66,966,902
Transfers from CIP	-	26,824,604	66,376,888	17,597,586	(110,799,078)	-
Revaluation adjustment	-	(29,817,779)	-	-	-	(29,817,779)
Disposals	-	-	(990,749)	(1,161,810)	-	(2,152,559)
Transfers and reclassifications*	-	(23,891,114)	(34,516,981)	306,148	3,217,500	(54,884,447)
As of June 30, 2018	280,865,791	2,660,610,218	4,958,950,658	490,728,869	449,687,671	8,840,843,207
Accumulated depreciation & Impairment						
As of January 1, 2017	(313,751)	(1,941,775,168)	(2,594,626,703)	(393,555,283)	(117,199,046)	(5,047,469,951)
Charge for the year	-	(108,320,259)	(247,145,551)	(23,601,210)	-	(379,067,020)
Accumulated depreciation of disposals	-	1,048,488	9,147,156	42,207,685	-	52,403,329
Impairment	-	(1,192,899)	-	-	(883,929)	(2,076,828)
Transfers and reclassifications*	-	1,529,689,405	-	8,166,732	-	1,537,856,137
As of December 31, 2017	(313,751)	(520,550,433)	(2,832,625,098)	(366,782,076)	(118,082,975)	(3,838,354,333)
Charge for the year	-	(72,232,835)	(121,391,590)	(12,176,629)	-	(205,801,054)
Accumulated depreciation of disposals	-	-	990,749	1,151,922	-	2,142,671
Impairment	-	35,803,650	-	-	-	35,803,650
Transfers and reclassifications*	-	58,408,095	-	-	-	58,408,095
As of June 30, 2018	(313,751)	(498,571,523)	(2,953,025,939)	(377,806,783)	(118,082,975)	(3,947,800,971)
Net book value as of December 31, 2017	280,552,040	2,166,817,470	2,095,005,170	107,105,183	372,896,894	5,022,376,757
Net book value as of June 30, 2018	280,552,040	2,162,038,695	2,005,924,719	112,922,086	331,604,696	4,893,042,236

In 2018, Transfers and Reclassifications of USD 0.8 million (RON 3.52 million) represent transfer to intangibles, reclassifications between categories and other adjustments. Also, an additional transfer, relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset in amount of USD 14.59 million.

In 2017, Transfers and Reclassifications of USD 1.15 million (RON 4.6 million) represent transfer to intangibles, reclassifications between categories and other adjustments. Also, an additional transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset in amount of USD 382.1 million.

- *Construction in progress*

In 2018 out of the total acquisitions in construction in progress the most significant refers to the following projects of Rompetrol Rafinare SA: HDPE* Unit restart USD 1.2 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 3.5 million, Tank rehabilitation amounting to USD 1.4 million Rehabilitation of the electrical system SRA2 USD 1.2 million and refinery catalyst replacement HPM USD 1.7 million. Part of these projects have been transferred to the other property, plant and equipment categories.

In 2018 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 2.8 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 9.7 million, Rehabilitation of the electrical system SRA2 USD

5. PROPERTY, PLANT AND EQUIPMENT (continued)

1.2 million and Refinery specific optimisation programs amounting to USD 6.2 million in respect of Rompetrol Rafinare SA.

* On 30 June 2018 and 31 December 2017, the net book value of the HDPE plant was USD 27.8 million, respectively USD 23 million.

With the support and decision of the majority shareholder, the company started at the end of 2017 the mechanical and organizational works for bringing the HDPE plant into operation. In mid-April 2018, the HDPE plant was put into function at optimum parameters, but due to unfavourable market conditions characterized by low petrochemical margins, it was stopped in mid-May. Within the Group, internal analyses are carried out on potential measures to mitigate the negative impact of the market, with the Group relying on the rapid restart of the unit when market conditions improve.

During 2017, Downstream continued the process of expending the network by opening new stations and rebranding the existing one. The value of investment was USD 21.7 million.

In 2017 out of the total acquisitions in construction in progress the most significant refers to the following projects of Rompetrol Rafinare SA: HDPE Unit restart USD 4.2 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 12.5 million, Tank rehabilitation amounting to USD 5.2 million and Refinery and Petrochemicals annual turnaround amounting to USD 17.3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

In 2017 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 7.6 million, State Inspecting for Control of Boilers, Pressure Vessel and Hoisting authorizations (ISCIR) amounting to USD 7.5 million, HDPE Unit restart amounting to USD 4.2 million and Refinery specific optimisation programs amounting to USD 13.3 million in respect of Rompetrol Rafinare SA.

- *Disposals*

In 2018, out of the total USD 0.54 million disposed assets, USD 0.29 million refers to sales for Rompetrol Downstream S.A. and USD 0.25 million refers to write-offs for Rompetrol Gas.

In 2017, out of the total USD 13.7 million disposed assets, USD 13.2 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 periods ended at 30 June 2018 and 31 December 2017 no loans were taken specifically for investments and - no borrowing costs were capitalized.

- *Disposals through sales of subsidiaries and liquidations*

During 2018 and 2017 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 2017 on the cash generating units ("CGUs") listed below in Note 6.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- *Revaluation of buildings category*

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

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Group's assets. Fair value of the buildings category was determined using the market comparable method. The valuations were performed by an independent appraiser and are based on proprietary databases of prices for properties of similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement. A net gain from the revaluation of the Group buildings category of USD 146,4 million in 2017 was recognized in OCI.

Reconciliation of carrying amount

	Buildings	
	mUSD	**mRON**
Carrying amount as at December 31, 2016*	**423**	**1,646**
Level 3 revaluation gain recognised due to change in accounting policy to revaluation model	174	677
Level 3 revaluation loss recognized (included in the profit and loss for the period)	(45)	(175)
Depreciation for the year	(27)	(105)
Additions/Disposals/Transfers and reclassifications	16	62
Carrying amount and fair value as at 31 December 2017	**541**	**2,148**

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

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

	2017	
	mUSD	**mRON**
Cost	924	3,596
Accumulated depreciation and impairment	(512)	(1,992)
Net carrying amount	**412**	**1,604**

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 434.6 million (2017: USD 437.9 million) net, for securing banking facilities granted to Group entities.

(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))

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 2017 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2017, the net book value of property plant and equipment for the cash generating units is the following: Refining USD 919 million, Petrochemicals USD 55 million, Downstream USD 207 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 9.0% (2016: 9.6%) 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 7.5% (2016: 8.1%).

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 9.0% (2016:9.6%) 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 7.5% (2016: 8.1%).

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 9.0% (2016 9.6%) 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 7.5 % (2016: 8.1%).

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:

	2018	2019	2020	2021	2022
Refining	2.8%	5.8%	5.6%	6.2%	5.3%
Petrochemicals	(2.9%)	(0.1%)	(0.8%)	0.6%	1.1%
Downstream Romania	2.2%	2.2%	2.0%	2.4%	2.9%

(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))

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:

Refining

The break-even point for the current model is achieved under a decrease of 59.1% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.1%	2.4%	2.3%	2.5%	2.2%

Petrochemicals

The break-even point for the current model is achieved under a decrease of 57.3% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	(1.2%)	(0.1%)	(0.3%)	0.2%	0.5%

Downstream Romania

The break-even point for the current model is achieved under a decrease of Operating profit of 51.8% reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.0%	1.1%	1.0%	1.2%	1.4%

*Operating profit margins were computed based on net revenue.

(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))

7. INVESTMENTS

a) Investments in Consolidated Subsidiaries

Details of the Group consolidated subsidiaries at June 30, 2018 and December 31, 2017 are as follows:

Company name	Range of activity	Effective ownership June 30, 2018	Control June 30, 2018	Effective ownership December 31, 2017	Control December 31, 2017
Rompetrol 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%
Rompetrol Logistics S.R.L.	Logistics operations	66.19%	100.00%	66.19%	100.00%
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100.00%	100.00%	100.00%	100.00%
Rompetrol Quality Control S.R.L.	Quality Control Services	100.00%	100.00%	100.00%	100.00%
Rompetrol 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

	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	USD	USD	RON	RON
Other	18,583	18,583	74,393	74,393
Total	18,583	18,583	74,393	74,393

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

8. INVENTORIES, NET

	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	USD	USD	RON	RON
Crude oil and other feedstock materials	118,450,149	148,316,687	474,191,481	593,756,195
Petroleum and petrochemical products	178,657,896	139,135,248	715,221,155	557,000,138
Work in progress	30,280,455	31,572,883	121,221,746	126,395,723
Spare parts	16,320,147	16,625,967	65,334,444	66,558,734
Consumables and other raw materials	5,527,664	5,743,935	22,128,897	22,994,695
Merchandises	9,848,286	10,434,929	39,425,643	41,774,151
Other inventories	8,983,409	8,765,119	35,963,281	35,089,401
Inventories provision	(22,412,125)	(17,970,943)	(89,722,460)	(71,943,076)
	345,655,881	342,623,825	1,383,764,187	1,371,625,961

(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))

8. INVENTORIES, NET (continued)

The inventories provision movement in 2018 and 2017 is provided below:

Movements in inventories reserve:

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Reserve as of January 1	**(17,970,943)**	**(16,690,970)**	**(71,943,076)**	**(66,818,960)**
Accrued provision	(8,508,856)	(3,864,942)	(34,063,504)	(15,472,523)
Write off	1,398	38,435	5,597	153,867
Reversal of provision	4,066,276	2,546,534	16,278,523	10,194,540
Reserve as of December 31	**(22,412,125)**	**(17,970,943)**	**(89,722,460)**	**(71,943,076)**

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

The Group has pledged inventories in gross amount of USD 308.8 million (2017: USD 301.4 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.

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Trade receivables	306,896,548	272,145,734	1,228,598,951	1,089,481,018
Advances to suppliers	9,093,081	9,061,490	36,402,331	36,275,863
Sundry debtors	87,390,240	84,011,319	349,849,348	336,322,513
VAT to be recovered	-	12,050		48,240
Other receivables	170,268,238	176,224,862	681,634,837	705,480,990
Provision for bad and doubtful debts	(107,149,213)	(105,245,948)	(428,950,444)	(421,331,104)
	466,498,894	436,209,507	1,867,535,023	1,746,277,520

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

Included in Sundry debtors in 2018 is an amount of USD 9.30 million (2017: USD 3.05 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2007-2010 and 2011-2015 period, and an additional USD 3.43 million (2017: USD 3.53 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). Also, included in Sundry debtors category is an amount of USD 71.3 million relating to Rompetrol Petrochemicals SRL receivables against KMGI as a result of Rompetrol Petrochemicals SRL assignment of receivables to KMGI starting with November 2017 for Rompetrol Rafinare SA debts.

(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))

9. TRADE AND OTHER RECEIVABLES (continued)

Out of the total balance for other receivables of USD 170.3 million, an amount of USD 30.47 million (2017: USD 30.02 million) relates to Competition Council fine from Downstream and USD 114.74 million relates to cash pooling receivables for: Rompetrol Downstream USD 90.2 million (2017: USD 92.9 million), Rompetrol Gas USD 23.8 million (2017: USD 19.9 million), and Rompetrol Quality Control USD 0.11 million. Also, in other receivables an amount of USD 10.01 million (2017: USD 13.99 million) refers to excise receivables in Rompetrol Rafinare.

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Sundry debtors	87,390,240	84,011,319	349,849,348	336,322,513
Other receivables	170,268,238	176,224,862	681,634,837	705,480,990
Provision for sundry debtors and other receivables	(36,070,665)	(32,772,120)	(144,401,691)	(131,196,627)

Out of the total amount of other receivables and sundry debtors of USD 257.6 million (2017: USD 260.2 million) an amount of USD 36.07 million (2017: USD 32.77 million) is provisioned.

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

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Balance at the beginning of the year	**(105,245,948)**	**(92,735,110)**	**(421,331,104)**	**(371,246,466)**
Impairment losses recognized on receivables	(7,040,694)	(1,933,470)	(28,186,010)	(7,740,260)
Impairment losses reversed	1,939,995	2,028,308	7,766,382	8,119,925
Translation differences	3,197,434	(12,605,676)	12,800,288	(50,464,303)
Balance at the end of the year	**(107,149,213)**	**(105,245,948)**	**(428,950,444)**	**(421,331,104)**

Trade receivables totaling USD 150.8 million (RON 603.7 million) as at June 30, 2018 and USD 127.85 million (RON 511.82 million) as at December 31, 2017 are pledged to obtain credit facilities (see Notes 12 and 15).

10. CASH AND CASH EQUIVALENTS

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Cash at bank	11,371,602	10,040,822	45,523,934	40,196,423
Cash on hand	1,545,543	2,361,831	6,187,272	9,455,118
Cash equivalents	1,439,111	189,540	5,761,193	758,785
	14,356,256	12,592,193	57,472,399	50,410,326

Included in cash at bank is USD 1.74 million (RON 6.96 million) as at June 30, 2018 and USD 1.77 million (RON 7.08 million) as at December 31, 2017 representing cash collateral for certain bank facilities (see Note 12 and 15). Cash equivalents represent mainly cheques in the course of being cashed.

(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))

11.EQUITY

As of June 30, 2018 and December 31, 2018 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, 2018 is as follows:

June 30, 2018

Shareholders	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	2,818,551,909
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,618,341,835
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	379,049,542
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,919,194
Others (not State or KMGI Group)	0.67%	29,562,686	9,807,428	39,262,077
Total	100%	4,410,920,571	1,463,323,897	5,858,124,557

Shareholders' structure as at December 31, 2017 was as follows:

December 31, 2017

Shareholders	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	2,818,551,909
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,618,341,835
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	379,049,542
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,919,194
Others (not State or KMGI Group)	0.67%	29,562,686	9,807,428	39,262,077
Total	100%	4,410,920,571	1,463,323,897	5,858,124,557

There were no changes in the statutory value of Rompetrol Rafinare SA issued share capital in 2018 and 2017.

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 89/2005.

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.

11. EQUITY (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 million were converted (USD 150 million related to Rompetrol Rafinare and USD 50 million to Rompetrol Dowstream), 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

In 2017 an additional USD 72.2 million related to Rompetrol Rafinare SA were converted to hybrid loan repayable after 51 years. As of December 31, 2017, the total value of the hybrid loan is amounting USD 1,072 million. The additional 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 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

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

Also, in 2017 management carried out an assessment on the potential hybrid loan interest liability and recorded an amount of USD 14.6 million, based on the projected profitability of the business for the upcoming period.

Revaluation reserve

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

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Group's assets. Fair value of the buildings category was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices for properties of similar nature, location and condition. A gain from the revaluation of the Group buildings category of USD 146,4 million in 2017 was recognized in OCI.

On June 30, 2018, the balance of the revaluation reserves is affected by the transfer in retained earnings of the difference between depreciation based on revalued carrying amount and depreciation based on the initial cost of assets in the buildings category. Under the accounting policy adopted by the Group as of December 31, 2017, the revaluation surplus included in the revaluation reserve is capitalized by the transfer in retained earnings as a result of the use of the asset or disposal, insofar as that transfer has not already been made during the use of the asset reassessed. Thus, on 30 June 2018, the revaluation surplus transferred to retained earnings was USD 5.11 million.

(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))

12. LONG-TERM BORROWINGS FROM BANKS

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 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, 2021.	104,046,198	-	416,528,144	-
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Rafinare: The exposure is composed by 2 loans in USD. The loans are payable by April 23, 2021.	136,147,448	-	545,039,079	-
Amount payable within one year principal	(193,646)	-	(775,223)	-
Total	240,000,000	-	960,792,000	-

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
One year or less - principal	193,646	-	775,223	-
One year or less - accrued interest long-term loans	-	-	-	-
Between two and five years	240,000,000	-	960,792,000	-
Total	240,193,646	-	961,567,223	-

The loans are secured with pledges on property plant and equipment of USD 434.6 million (2017: USD 437.9), inventories of USD 308.8 million (2017: USD 301.4) and trade receivables of USD 150.8 million (2017: USD 127.8 million).

All the financial covenants applicable were complied with as of June 30, 2018.

13. DEFERRED TAX ASSETS AND LIABILITIES

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

	June 30, 2018 USD	December 31, 2017 USD	June 30, 2018 RON	December 31, 2017 RON
Deferred tax assets	(36,221,657)	(36,221,657)	(145,006,159)	(145,006,159)
Deferred tax liabilities	4,297,506	3,715,861	17,204,206	14,875,706
Deferred tax (asset) / liability, net	**(31,924,151)**	**(32,505,796)**	**(127,801,953)**	**(130,130,453)**

(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))

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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

USD

2018	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	340,470,813	-	3,635,281	344,106,094
Inventories	82,619	-	-	82,619
Provisions	(72,310,000)	-	-	(72,310,000)
Tax losses	(471,453,231)	-	-	(471,453,231)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	(203,161,224)	-	3,635,281	(199,525,943)
Deferred tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	54,475,330	-	581,645	55,056,975
Inventories	13,219	-	-	13,219
Provisions	(11,569,600)	-		(11,569,600)
Tax losses	(75,432,517)	-		(75,432,517)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	(32,505,796)	-	581,645	(31,924,151)

RON

2018	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	197,114	-	-	197,114
Property, plant and equipment	1,363,006,806	-	14,553,120	1,377,559,926
Inventories	330,749	-	-	330,749
Provisions	(289,478,623)	-	-	(289,478,623)
Tax losses	(1,887,368,720)	-	-	(1,887,368,720)
Other	(2,654)	-	-	(2,654)
Total temporary differences (asset)/liability	(813,315,328)	-	14,553,120	(798,762,208)
Deferred tax effect				
Intangible assets	31,538	-	-	31,538
Property, plant and equipment	218,081,088	-	2,328,500	220,409,588
Inventories	52,920	-	-	52,920
Provisions	(46,316,580)	-	-	(46,316,580)
Tax losses	(301,978,995)	-	-	(301,978,995)
Other	(424)	-	-	(424)
Deferred tax (asset)/liability recognized	(130,130,453)	-	2,328,500	(127,801,953)

(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))

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

USD

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	125,006,263	41,141,006	174,323,544	340,470,813
Inventories	82,619	-	-	82,619
Provizions	(65,525,531)	(6,784,469)	-	(72,310,000)
Tax losses	(454,374,481)	(17,078,750)	-	(471,453,231)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	(394,762,555)	17,277,787	174,323,544	(203,161,224)
Deferred tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	20,001,002	6,582,561	27,891,767	54,475,330
Inventories	13,219	-	-	13,219
Provizions	(10,484,085)	(1,085,515)	-	(11,569,600)
Tax losses	(72,699,917)	(2,732,600)		(75,432,517)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	(63,162,009)	2,764,446	27,891,767	(32,505,796)

RON

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	197,114	-	-	197,114
Property, plant and equipment	500,437,573	164,699,789	697,869,444	1,363,006,806
Inventories	330,749	-	-	330,749
Provisions	(262,318,358)	(27,160,265)	-	(289,478,623)
Tax losses	(1,818,997,360)	(68,371,360)	-	(1,887,368,720)
Other	(2,654)	-	-	(2,654)
Total temporary differences (asset)/liability	(1,580,352,936)	69,168,164	697,869,444	(813,315,328)
Deferred tax effect				
Intangible assets	31,538	-	-	31,538
Property, plant and equipment	80,070,011	26,351,966	111,659,111	218,081,088
Inventories	52,920	-	-	52,920
Provisions	(41,970,937)	(4,345,642)	-	(46,316,579)
Tax losses	(291,039,578)	(10,939,418)	-	(301,978,996)
Other	(424)	-	-	(424)
Deferred tax (asset)/liability recognized	(252,856,470)	11,066,906	111,659,111	(130,130,453)

(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))

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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 sufficient taxable income to cover the applicable tax losses available. 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.

14.TRADE AND OTHER PAYABLES

	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	USD	USD	RON	RON
Trade payables	738,484,189	765,953,098	2,956,373,756	3,066,340,039
Advances from customers	28,149,314	26,318,867	112,690,147	105,362,320
Excise taxes	1,988	27,500	7,959	110,091
Special found tax for oil products	6,884,558	7,082,443	27,560,951	28,353,144
VAT payable	40,043,280	33,555,506	160,305,263	134,332,757
Profit tax payable	150,551	758,592	602,701	3,036,871
Other taxes payable	(25,848)	(25,516)	(103,477)	(102,148)
Employees and social obligations	4,133,028	5,275,852	16,545,751	21,120,818
Deferred revenues	4,151,538	5,579,121	16,619,852	22,334,895
Other liabilities	127,577,531	122,141,497	510,731,130	488,969,055
Total	949,550,129	966,666,960	3,801,334,033	3,869,857,842

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, 2018 are included in other liabilities, for the following companies: Rompetrol Rafinare S.A. USD 104.49 million, Rompetrol Gas USD 16.87 million and Romoil USD 0.65 million. Rompetrol Downstream S.R.L., Rompetrol Gas and Rompetrol Quality Control S.R.L. have a positive balance included in other receivables (see note 9) amounting to USD 90.2 million, USD 23.8 million and 0.11 million respectively.

Also in other liabilities are included short term guarantees in Rompetrol Downstream S.R.L., in amount of USD 4.27 million (2017: USD 3.92 million).

15. SHORT-TERM DEBT

	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	USD	USD	RON	RON
Bancpost Rompetrol Rafinare S.A.: Revolving credit ceiling 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.	33,401,229	8,102,477	133,715,139	32,436,646
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The maturity of the loans was April 23, 2018, when they were prolonged and transferred to long term debt.	-	103,960,000	-	416,183,068
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Rafinare: The exposure is composed by 2 loans in USD. The maturity of the loans was April 23, 2018, when they were prolonged and transferred to long term debt.	-	111,868,745	-	447,844,147
Accrued interest	-	132,010	-	528,476
Current portion of long-term debt	193,646	-	775,223	-
	33,594,875	224,063,232	134,490,362	896,992,337

(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))

15. SHORT-TERM DEBT (continued)

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Borrowings from shareholders and related parties				
KMG International N.V. Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 250 million, for USD 50 million maturity date - December 31, 2018, for USD 200 million maturity date is on request , assignment of receivables, real movable security interest over movable assets; real movable security interest over the participations over Rompetrol Logistics SRL, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil SA; real movable security interest over the bank accounts. The undrawn amounts as of June 30, 2018 is in amount of USD 94.24 million.	94,240,904	127,113,904	377,274,611	508,875,092
Rompetrol Financial Group Rompetrol Rafinare SA:Short-term facility for working capital needs in amount of up to USD 29.215 million, maturity date - December 31, 2018. The facility has been fully used.	28,726,301	29,551,587	115,000,001	118,303,868
KMG International N.V. Rompetrol Downstream SRL: Working capital facility for USD 39.2 million. Maturity date is December 31, 2018 with the possibility to be extended automatically with the agreement of both parties.	546,257	546,257	2,186,831	2,186,831
Midia Marine Terminal Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of RON 27.211 million, maturity date December 31, 2018. The facility has been fully used.	6,797,167	6,992,445	27,211,099	27,992,855
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - July 10, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	3,247,321	3,340,614	13,000,000	13,373,480
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - August 28, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	2,797,692	2,878,068	11,200,000	11,521,770
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - July 14, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	1,748,557	1,798,792	6,999,998	7,201,104
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date -July 3, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.	774,361	796,608	3,099,999	3,189,061
Accrued interest	3,543,914	3,193,509	14,187,349	12,784,575
	142,422,474	176,211,784	570,159,888	705,428,636

(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))

15.SHORT-TERM DEBT (continued)

All the financial covenants applicable were complied with as of June 30, 2018.

All loans are interest bearing and the effective weighted average interest rates per currency are the following: EUR 3.3% (2017: 3.3%), RON 6.5% (2017: 4.3%) and USD 3.84% (2017: 3.2%).

The loans bearing guarantees are secured with pledges on property plant and equipment of USD 434.6 million (2017: USD 437.9), inventories of USD 308.8 million (2017: USD 301.4) and trade receivables of USD: 150.8 million (2016: USD 127.8 million).

The movement in loans is presented below:

USD	At 1 January 2018	Movement	At 30 June 2018
Long-term borrowings	-	240,000,000	240,000,000
Short-term borrowings banks	223,931,222	(190,529,993)	33,401,229
Short term borrowings from shareholders	173,018,275	(34,139,715)	138,878,560
		-	
Interest Short term borrowings from shareholders	3,193,509	350,405	3,543,914
Interest payable within one year related to long-term loans	132,010	61,636	193,646
Total	400,275,016	15,742,333	416,017,349

RON	At 1 January 2018	Movement	At 30 June 2018
Long-term borrowings	-	960,792,000	960,792,000
Short-term borrowings banks	896,463,862	(762,748,723)	133,715,139
Short term borrowings from shareholders	692,644,060	(136,671,521)	555,972,539
Interest Short term borrowings from shareholders	12,784,575	1,402,774	14,187,349
Interest payable within one year related to long-term loans	528,476	246,747	775,223
Total	1,602,420,973	63,021,277	1,665,442,250

16. PROVISIONS

Provisions comprise the following:

	2018 USD	2017 USD	2018 RON	2017 RON
Non-current provisions	80,635,060	85,001,042	322,806,336	340,284,672
Total Provisions	80,635,060	85,001,042	322,806,336	340,284,672

The movement in provisions is presented below:

USD	At 1 January 2018	Reclassification between balance sheet items	At 30 June 2018
Provision for retirement benefit	8,237,099	-	8,237,099
Provision for restructuring	13,486	-	13,486
Environmental provisions	72,384,475	-	72,384,475
Other provisions	4,365,982	(4,365,982)	0
Total	85,001,042	(4,365,982)	80,635,060

RON	At 1 January 2018	Reclassification between balance sheet items	At 30 June 2018
Provision for retirement benefit	32,975,578	-	32,975,578
Provision for restructuring	53,989	-	53,989
Environmental provisions	289,776,769	-	289,776,769
Other provisions	17,478,336	(17,478,336)	0
Total	340,284,672	(17,478,336)	322,806,336

(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))

16. PROVISIONS (continued)

The movement in other provisions from 2018 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 0.9 million) and also a provision that was booked in relation to fiscal controls for the period 2011 - 2015 in relation to Rompetrol Rafinare in amount of USD 3.5 million (see note 26), which was reclassified as a provision for sundry debtors as of June 30, 2018 (see notes 9 and 26).

USD	At 1 January 2017	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2017
Provision for retirement benefit	6,958,404	1,013,730	264,965	-	8,237,099
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	65,595,731	-	6,788,744	-	72,384,475
Other provisions	3,861,722	-	3,508,734	(3,004,474)	4,365,982
Total	**76,429,343**	**1,013,730**	**10,562,443**	**(3,004,474)**	**85,001,042**

RON	At 1 January 2017	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2017
Provision for retirement benefit	27,856,579	4,058,265	1,060,734	-	32,975,578
Provision for restructuring	53,989	-	-	-	53,989
Environmental provisions	262,599,390	-	27,177,379	-	289,776,769
Other provisions	15,459,632	-	14,046,515	(12,027,811)	17,478,336
Total	**305,969,590**	**4,058,265**	**42,284,628**	**(12,027,811)**	**340,284,672**

At the end of 2017, the total amount provisioned for Vega lagoons remediation project was USD 72.4 million (calculated on the basis of estimated costs based on an assessment report issued by an independent expert and an estimated 5 years works completion). At the date of these financial statements, Rompetrol Rafinare SA will engage in certain technical procedures (pilot tests) agreed with the environmental authorities in order to clarify the technological solution and as support for the review of the integrated environmental permit. At the same time, the process of bidding for suppliers for future greening works is ongoing.

Under the collective labor agreements that certain of the 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.

(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))

17.REVENUES

	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	USD	USD	RON	RON
Gross revenues from petroleum products production	2,366,995,806	1,451,182,561	9,475,794,310	5,809,519,146
Gross revenues from petroleum products trading	77,585,462	150,062,701	310,597,880	600,746,011
Revenues from petrochemicals production	111,440,482	79,882,304	446,129,682	319,792,828
Revenues from petrochemicals trading	2,911,925	101,890	11,657,309	407,896
Revenues from other merchandise sales	37,737,093	30,699,891	151,072,904	122,900,874
Revenues from utilities sold	1,106,258	940,839	4,428,683	3,766,461
Revenues from transportation fees	1,048,752	696,940	4,198,469	2,790,060
Revenues from rents and other services	5,316,457	4,847,449	21,283,372	19,405,793
Gross Revenues	**2,604,142,235**	**1,718,414,575**	**10,425,162,609**	**6,879,329,069**
Less sales taxes	(553,443,881)	(395,389,419)	(2,215,601,889)	(1,582,862,461)
Less commercial discounts	(64,650,638)	(48,601,712)	(258,815,899)	(194,567,234)
Total	1,986,047,716	1,274,423,444	7,950,744,821	5,101,899,374

Total Revenues increased mainly due to the volatility of international prices for petroleum products and by the increase in the volume of products sold compared to last year. The increased price of crude oil resulted in increased prices of refined products and corresponding revenues.

18.COST OF SALES

	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	USD	USD	RON	RON
Crude oil and other raw materials	1,649,786,498	999,264,293	6,604,590,288	4,000,354,746
Consumables and other materials	7,574,867	6,061,473	30,324,465	24,265,895
Utilities	43,678,718	31,243,276	174,859,012	125,076,207
Staff costs	14,310,839	11,162,440	57,290,582	44,686,596
Transportation	74,537	76,438	298,394	306,004
Maintenance and repairs	14,997,436	10,012,991	60,039,236	40,085,007
Insurance	821,735	662,192	3,289,652	2,650,953
Environmental expenses	161,993	84,091	648,507	336,642
Other	5,266,425	4,356,209	21,083,079	17,439,211
Cash production cost	**1,736,673,048**	**1,062,923,403**	**6,952,423,215**	**4,255,201,261**
Depreciation and amortization	36,092,318	28,709,150	144,488,377	114,931,340
Production costs	**1,772,765,366**	**1,091,632,553**	**7,096,911,592**	**4,370,132,601**
Plus: Change in inventories	(27,939,869)	(69,552,907)	(111,851,678)	(278,441,153)
Less: Own production of property, plant & equipment	(639)	(1,763,067)	(2,558)	(7,058,086)
Cost of petroleum products trading	64,781,308	129,328,167	259,339,010	517,739,451
Cost of petrochemicals trading	2,774,875	120,916	11,108,657	484,063
Cost of merchandise sold	29,674,944	24,600,415	118,797,703	98,482,841
Cost of utilities resold	512,614	536,356	2,052,148	2,147,194
Realised (gains)/losses on derivatives	7,428,565	1,020,476	29,738,774	4,085,272
Total	1,849,997,164	1,175,922,909	7,406,093,648	4,707,572,183

(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))

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

	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	USD	USD	RON	RON
Staff costs	9,371,638	9,759,429	37,517,480	39,069,922
Utilities	2,652,512	2,186,155	10,618,801	8,751,834
Transportation	24,167,956	21,598,831	96,751,578	86,466,600
Professional and consulting fees	23,833,053	12,881,395	95,410,861	51,568,089
Royalties and rents	3,347,270	2,780,589	13,400,126	11,131,532
Consumables	64,124	108,807	256,708	435,587
Marketing	1,827,940	1,668,302	7,317,792	6,678,713
Taxes	965,084	1,142,496	3,863,521	4,573,754
Communications	407,590	380,460	1,631,705	1,523,096
Insurance	315,930	513,662	1,264,763	2,056,343
IT related expenditures	4,352,589	4,053,641	17,424,720	16,227,941
Environmental expenses	1,118,877	1,183,661	4,479,200	4,738,550
Maintenance and repairs	4,551,506	4,715,451	18,221,044	18,877,365
Other expenses	8,098,005	6,771,760	32,418,743	27,109,387
Costs before depreciation	**85,074,074**	**69,744,639**	**340,577,042**	**279,208,713**
Depreciation and amortisation	16,029,227	18,420,807	64,169,804	73,744,017
Total	**101,103,301**	**88,165,446**	**404,746,846**	**352,952,730**

(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))

20.OTHER OPERATING INCOME/ (EXPENSES), NET

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Net book value of non-current assets disposals	(2,470)	(27,824)	(9,888)	(111,388)
Proceeds on disposals of non-current assets	267,559	246,958	1,071,119	988,647
Reverse for impairment of tangible assets, net	8,943,534	-	35,803,650	-
Provision for receivables, net	(2,993,353)	(277,507)	(11,983,290)	(1,110,944)
Provision for inventories and write-off, net	(4,441,182)	(2,915,846)	(17,779,384)	(11,673,006)
Receivables write-off	(1,267,723)	-	(5,075,075)	-
Tangible and intangible assets write-off	-	-	-	-
Gain/(loss) from revaluation of non-current assets	(11,174,920)	-	(44,736,557)	-
Inventories write-off	(131,320)	(1,700)	(525,713)	(6,806)
Other provisions, net	3,508,734	-	14,046,515	-
Other, net	210,826	75,517	843,998	302,317
Total	(7,080,315)	(2,900,402)	(28,344,625)	(11,611,180)

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

In 2017, "Other provisions" include an amount of USD 3.5 million that was booked in relation to fiscal controls for the period 2011 - 2015 in relation to Rompetrol Rafinare and USD 6.8 million in respect of environmental provision for Vega refinery.

Also in 2017, following the change in accounting policies for non - current assets (see notes Notes 2, and 5) a loss of USD 44.9 million resulted from buildings category revaluation.

21.FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Finance cost				
Late payment interest	(257,637)	(64,289)	(1,031,398)	(257,368)
Interest expense	(12,184,610)	(14,888,774)	(48,778,648)	(59,604,229)
Interest expense shareholders	(3,962,752)	(4,806,537)	(15,864,085)	(19,242,010)
Unwinding of discount on hybrid	-	-	-	-
Commission and other bank charges	(11,350,072)	(9,047,243)	(45,437,743)	(36,218,828)
Collection discounts expenses	-	1,034	-	4,140
	(27,755,071)	**(28,805,809)**	**(111,111,874)**	**(115,318,295)**
Finance income				
Interest income	5,207,813	14,977,019	20,848,438	59,957,500
Other financial income	371,861	159,562	1,488,671	638,775
	5,579,674	**15,136,581**	**22,337,109**	**60,596,275**
Finance income/(cost) net	**(22,175,397)**	**(13,669,228)**	**(88,774,765)**	**(54,722,020)**
Unrealized net foreign exchange (losses)/gains	(5,779,937)	(3,414,272)	(23,138,821)	(13,668,355)
Realized net foreign exchange (losses)/gains	2,587,591	3,033,747	10,358,903	12,144,999
Foreign exchange gain/(loss), net	**(3,192,346)**	**(380,525)**	**(12,779,918)**	**(1,523,356)**
Total	**(25,367,743)**	**(14,049,753)**	**(101,554,683)**	**(56,245,376)**

(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))

22.INCOME TAX

a) The current income tax rate in 2018 was 16%, the same as in 2017.

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Tax expense comprises:				
Current tax expense	(279,549)	415,070	(1,119,119)	1,661,650
Total tax expense/(income)	(279,549)	415,070	(1,119,119)	1,661,650

Deferred tax assets for losses carried forward were recognized because, following completion of its modernization program, the Group has started to be profitable and reasonable forecasts indicate profitability will continue in the following years. The deferred tax asset was computed based on the schedule of losses expiry (presented below) and the Group's forecasted taxable profits. The taxable profits were derived from the Company's forecast operating profits, which were also used for impairment testing of PPE (see note 6), and adjusted to reach taxable result (e.g. adjusting for fiscal depreciation vs. accounting depreciation and average level of non-deductible expenses).

As at 31 December 2017, deferred tax asset was recognized for USD 471 million (2016: USD 454 million) of the losses carried forward, based on the future fiscal profits estimated to be registered, in Rompetrol Rafinare. No deferred tax asset has been recognized for USD 66 million (2016: USD 180 million) in relation to the tax losses for the above entities, based on the assessment made.

In 2017, Rompetrol Rafinare recorded fiscal profit, which partially offset the fiscal loss from years 2010 and 2011. Also, in 2017 the cumulative fiscal loss was diminished by USD 144 million RON, after the fiscal control.

In 2017, Downstream fully utilized the cumulative fiscal loss.

22.INCOME TAX (continued)

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 assets and liabilities details are disclosed in Note 13.

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.

(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))

23. OPERATING SEGMENT INFORMATION (continued)

2018 Income Statement information

USD	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	1,038,586,020	114,352,408		833,109,288		1,986,047,716
Net revenues "Inter segment"	675,651,761	-		3,376,830	(679,028,591)	-
Cost of sales	(1,640,530,442)	(126,277,463)		(772,256,298)	689,067,039	(1,849,997,164)
Gross margin	**73,707,339**	**(11,925,055)**		**64,229,820**	**10,038,448**	**136,050,552**
Selling, general and administrative expenses	(31,371,321)	(4,982,913)		(54,013,553)	(10,735,514)	(101,103,301)
Other operating income/(expenses), net	(5,810,248)	(69,658)		(2,802,101)	1,601,692	(7,080,315)
Operating margin (EBIT)	**36,525,770**	**(16,977,626)**		**7,414,166**	**904,626**	**27,866,936**
Financial expenses, net			(19,136,482)	(1,103,261)	(1,935,654)	(22,175,397)
Net foreign exchange result			(2,030,936)	(1,161,410)	-	(3,192,346)
Profit/(loss) before income tax	**36,525,770**	**(16,977,626)**	**(21,167,418)**	**5,149,495**	**(1,031,028)**	**2,499,193**
Income tax			-	279,549	-	279,549
Net Profit/(Loss)	**36,525,770**	**(16,977,626)**	**(21,167,418)**	**5,429,044**	**(1,031,028)**	**2,778,742**
Depreciation and amortisation	34,236,579	8,146,101		10,199,650	(460,785)	52,121,545

RON	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	4,157,771,414	457,786,995	-	3,335,186,412	-	7,950,744,821
Net revenues "Inter segment"	2,704,836,695	-	-	13,518,464	(2,718,355,159)	-
Cost of sales	(6,567,535,518)	(505,526,568)		(3,091,573,638)	2,758,542,076	(7,406,093,648)
Gross margin	**295,072,591**	**(47,739,573)**		**257,131,238**	**40,186,917**	**544,651,173**
Selling, general and administrative expenses	(125,588,809)	(19,948,096)		(216,232,457)	(42,977,484)	(404,746,846)
Other operating income/(expenses), net	(23,260,166)	(278,862)		(11,217,651)	6,412,054	(28,344,625)
Operating margin (EBIT)	**146,223,616**	**(67,966,531)**		**29,681,130**	**3,621,487**	**111,559,702**
Financial expenses, net			(76,609,078)	(4,416,685)	(7,749,002)	(88,774,765)
Net foreign exchange result			(8,130,446)	(4,649,472)	-	(12,779,918)
Profit/(loss) before income tax	**146,223,616**	**(67,966,531)**	**(84,739,524)**	**20,614,973**	**(4,127,515)**	**10,005,019**
Income tax			-	1,119,119	-	1,119,119
Net Profit/(Loss)	**146,223,616**	**(67,966,531)**	**(84,739,524)**	**21,734,092**	**(4,127,515)**	**11,124,138**
Depreciation and amortisation	137,059,297	32,611,286		40,832,259	(1,844,661)	208,658,181

(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))

23. OPERATING SEGMENT INFORMATION (continued)

2018 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	1,709,389,647	237,861,090	(595,684,488)	1,351,566,249
Total current assets	602,152,271	405,092,688	(180,733,928)	826,511,031
TOTAL ASSETS	2,311,541,918	642,953,778	(776,418,416)	2,178,077,280
Total equity	1,070,145,163	239,544,576	(600,456,420)	709,233,319
Total non-current liabilities	224,983,862	108,530,159	6,292,395	339,806,416
Total current liabilities	1,016,412,893	294,879,043	(182,254,391)	1,129,037,545
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,311,541,918	642,953,778	(776,418,416)	2,178,077,280
Capital expenditure	14,882,513	2,484,044	(28,858)	17,337,699

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	6,843,199,576	952,229,303	(2,384,703,713)	5,410,725,166
Total current assets	2,410,596,185	1,621,707,558	(723,532,134)	3,308,771,609
TOTAL ASSETS	9,253,795,761	2,573,936,861	(3,108,235,847)	8,719,496,775
Total equity	4,284,112,131	958,968,801	(2,403,807,185)	2,839,273,747
Total non-current liabilities	900,677,896	434,478,786	25,190,344	1,360,347,026
Total current liabilities	4,069,005,734	1,180,489,274	(729,619,006)	4,519,876,002
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,253,795,761	2,573,936,861	(3,108,235,847)	8,719,496,775
Capital expenditure	59,579,164	9,944,373	(115,527)	69,408,010

(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))

23. OPERATING SEGMENT INFORMATION (continued)

2017 Income Statement information

USD	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	587,857,788	79,984,194		606,581,462	-	1,274,423,444
Net revenues "Inter segment"	459,067,844	-		3,364,442	(462,432,286)	-
Cost of sales	(1,008,539,465)	(86,370,140)		(552,766,422)	471,753,118	(1,175,922,909)
Gross margin	**38,386,167**	**(6,385,946)**		**57,179,482**	**9,320,832**	**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 income/(expenses), net	(2,344,504)	(2,032)		(246,050)	(307,816)	(2,900,402)
Operating margin (EBIT)	**8,393,597**	**(10,833,524)**		**9,838,937**	**35,677**	**7,434,687**
Financial expenses, net			(11,323,948)	(2,344,310)	(970)	(13,669,228)
Net foreign exchange result			(8,949,219)	8,568,694	-	(380,525)
Profit/(loss) before income tax	**8,393,597**	**(10,833,524)**	**(20,273,167)**	**16,063,321**	**34,707**	**(6,615,066)**
Income tax			-	(415,070)	-	(415,070)
Net Profit/(Loss)	**8,393,597**	**(10,833,524)**	**(20,273,167)**	**15,648,251**	**34,707**	**(7,030,136)**
Depreciation and amortisation	31,420,100	7,344,228		9,098,814	(733,185)	47,129,957

RON	Refining	Petrochemicals	Amounts not allocated between Refining & Petrochemicals segments	Marketing	Consolidation adjustments	Consolidated
Net revenues "external customers"	2,353,371,083	320,200,724	-	2,428,327,567	-	5,101,899,374
Net revenues "Inter segment"	1,837,786,348	-	-	13,468,870	(1,851,255,218)	-
Cost of sales	(4,037,486,040)	(345,765,581)		(2,212,889,817)	1,888,569,255	(4,707,572,183)
Gross margin	**153,671,391**	**(25,564,857)**		**228,906,620**	**37,314,037**	**394,327,191**
Selling, general and administrative expenses	(110,683,503)	(17,796,854)		(188,533,392)	(35,938,981)	(352,952,730)
Other operating income/(expenses), net	(9,385,753)	(8,135)		(985,012)	(1,232,280)	(11,611,180)
Operating margin (EBIT)	**33,602,135**	**(43,369,846)**		**39,388,216**	**142,776**	**29,763,281**
Financial expenses, net			(45,333,161)	(9,384,976)	(3,883)	(54,722,020)
Net foreign exchange result			(35,826,409)	34,303,053	-	(1,523,356)
Profit/(loss) before income tax	**33,602,135**	**(43,369,846)**	**(81,159,570)**	**64,306,293**	**138,893**	**(26,482,095)**
Income tax			-	(1,661,650)	-	(1,661,650)
Net Profit/(Loss)	**33,602,135**	**(43,369,846)**	**(81,159,570)**	**62,644,643**	**138,893**	**(28,143,745)**
Depreciation and amortisation	125,784,086	29,401,148		36,425,282	(2,935,159)	188,675,357

(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))

23. OPERATING SEGMENT INFORMATION (continued)

2017 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	1,735,908,313	243,523,281	(595,909,002)	1,383,522,592
Total current assets	580,591,020	382,853,632	(172,019,127)	791,425,525
TOTAL ASSETS	2,316,499,333	626,376,913	(767,928,129)	2,174,948,117
Total equity	1,075,739,796	232,002,408	(603,396,232)	704,345,972
Total non-current liabilities	92,454,909	4,864,478	6,292,395	103,611,782
Total current liabilities	1,148,304,628	389,510,027	(170,824,292)	1,366,990,363
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,316,499,333	626,376,913	(767,928,129)	2,174,948,117
Capital expenditure	60,156,694	25,293,794	(90,275)	85,360,213

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non current assets	6,949,361,749	974,896,751	(2,385,602,506)	5,538,655,994
Total current assets	2,324,280,030	1,532,677,945	(688,644,168)	3,168,313,807
TOTAL ASSETS	9,273,641,779	2,507,574,696	(3,074,246,674)	8,706,969,801
Total equity	4,306,509,125	928,775,240	(2,415,576,134)	2,819,708,231
Total non-current liabilities	370,124,737	19,473,965	25,190,345	414,789,047
Total current liabilities	4,597,007,917	1,559,325,491	(683,860,885)	5,472,472,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,273,641,779	2,507,574,696	(3,074,246,674)	8,706,969,801
Capital expenditure	240,825,296	101,258,642	(361,397)	341,722,541

- 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.

(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))

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:

	June 30, 2018 USD	June 30, 2017 USD	June 30, 2018 RON	June 30, 2017 RON
Romania	1,134,752,502	801,258,223	4,542,754,691	3,207,677,044
Export	851,295,214	473,165,221	3,407,990,130	1,894,222,330
out of which				
Petroleum products	792,042,981	433,006,895	3,170,785,666	1,733,456,504
Petrochemical products	59,252,233	40,158,326	237,204,464	160,765,826
Total	1,986,047,716	1,274,423,444	7,950,744,821	5,101,899,374

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:

Name of related party	Nature of relationship
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 Kazahstan 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
Rompetrol Albania Wholesale Sh.A.	Company owned by KMG International Group
Rompetrol Bulgaria JSC	Company owned by KMG International Group
Rompetrol Energy S.A.	Company owned by KMG International Group
Rompetrol Financial Group S.R.L.	Company owned by KMG International Group
Rompetrol Georgia LLC	Company owned by KMG International Group
Rompetrol Moldova SA	Company owned by KMG International Group
Oilfield Exploration Business Solutions S.A. (former Rompetrol S.A.)	Company owned by KMG International Group
Rompetrol Ukraine LLC	Joint Venture owned by KMG International Group
Rompetrol Well Services S.A.	Company owned by KMG International Group
TRG Petrol Ticaret Anonim Sirketi	Company owned by KMG International Group
Dyneff 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

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. For the year ended June 30, 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: 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.

(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))

24.RELATED PARTIES (continued)

Name of related party	Receivables loans and other assets			
	30-Jun-18 USD	31-Dec-17 USD	30-Jun-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	4,672,505	4,711,700	18,705,439	18,862,349
Rominserv S.A.	1,917,302	1,151,215	7,675,535	4,608,659
KMG International N.V.	1,461,268	861,858	5,849,894	3,450,276
KMG Rompetrol S.R.L	1,146,609	2,479,955	4,590,220	9,928,004
KMG Rompetrol SRL - cash pooling	114,174,243	112,797,295	457,073,747	451,561,411
Oilfield Exploration Business Solutions S.A.	6,158,923	5,089,414	24,656,016	20,374,451
Rompetrol Well Services S.A.	142,712	285,401	571,319	1,142,546
KMG Rompetrol Services Center	24,085	18,150	96,419	72,660
Palplast S.A.	1,263,380	1,373,225	5,057,689	5,497,432
Rompetrol Bulgaria JSC	3,924,052	3,167,265	15,709,157	12,679,512
Rompetrol Moldova SA	7,754,288	6,303	31,042,741	25,233
KazMunayGas Engineering B.V.	3,573	3,573	14,304	14,304
Rompetrol Energy S.A.	600	617	2,402	2,470
Byron Shipping SRL	2,315	2,458	9,268	9,840
Rompetrol Albania Wholesale Sh.A.	12,708	13,069	50,874	52,319
Midia Marine Terminal S.R.L.	322,841	279,060	1,292,429	1,117,161
Rominserv Valves Iaifo SRL	30,955	22,555	123,922	90,294
Rominserv Kazakhstan LTD	168,167	168,167	673,223	673,223
Rompetrol Ukraine LLC	-	8,254	-	33,043
Uzina Termoelectrica Midia S.A.	1,085,869	2,175,925	4,347,059	8,710,881
Global Security Systems S.A.	164,692	182,644	659,311	731,179
Tengizchevroil LLP	-	562,412	-	2,251,504
TRG Petrol Anonim Sirketi	5,946,865	2,703,679	23,807,085	10,823,638
Total	150,377,952	138,064,194	578,200,968	552,712,389

Name of related party	Payables, loans and other liabilities			
	30-Jun-18 USD	31-Dec-17 USD	30-Jun-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	553,367,580	550,694,435	2,215,296,433	2,204,595,032
Rominserv S.A.	24,998,164	38,048,899	100,075,150	152,321,157
KMG International N.V.	20,074,056	19,814,422	80,362,468	79,323,076
KMG International N.V.- Short term debt - principal	94,787,155	127,660,155	379,461,418	511,061,899
KMG International N.V.- Short term debt - interest	534,870	574,327	2,141,245	2,299,203
KMG Rompetrol S.R.L	8,418,932	17,646,134	33,703,510	70,642,768
KMG Rompetrol SRL - cash pooling	122,029,000	115,317,058	488,518,696	461,648,778
Oilfield Exploration Business Solutions S.A.	238,560	238,318	955,027	954,058
Rompetrol Well Services S.A.	76,508	118,864	306,284	475,848
Rompetrol Well Services S.A. - Short term debt - principal	8,567,798	8,814,072	34,299,466	35,285,374
KMG Rompetrol Services Center	1,375,148	1,075,850	5,505,130	4,306,950
Rompetrol Bulgaria JSC	114,708	108,992	459,211	436,328
Rompetrol Moldova SA	4,201,325	3,656,976	16,819,164	14,639,972
Rompetrol Financial Group SRL - Short term debt - principal	28,725,850	29,551,550	114,998,195	118,303,720
Rompetrol Financial Group SRL - Short term debt - interest	1,567,639	1,346,494	6,275,729	5,390,419
Byron Shipping Ltd.	2,256	2,321	9,031	9,292
Midia Marine Terminal S.R.L.	39,604,512	36,568,596	158,548,743	146,395,060
Midia Marine Terminal S.R.L.- Short term debt - principal	6,797,060	6,992,436	27,210,670	27,992,819
Midia Marine Terminal S.R.L. - Short term debt - interest	1,442,102	1,258,156	5,773,167	5,036,776
Rominserv Valves Iaifo SRL	26,219	16,379	104,963	65,570
Uzina Termoelectrica Midia S.A.	2,885,338	2,896,375	11,550,874	11,595,058
Rompetrol Georgia LLC	16	17	64	68
Global Security Systems S.A.	241,664	790,637	967,453	3,165,157
Tengizchevroil LLP	17,235		68,997	-
TRG Petrol Anonim Sirketi	462	145	1,850	580
Total	920,094,157	963,191,608	3,683,412,938	3,855,944,962

(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))

24.RELATED PARTIES (continued)

During 2018 and 2017, Rompetrol Rafinare Group entered into the following transactions with related parties:

Name of related party	Sales and other revenues 30-Jun-18 USD	30-Jun-17 USD	30-Jun-18 RON	30-Jun-17 RON
KazMunayGas Trading AG	649,022,467	327,463,654	2,598,231,642	1,310,935,246
Rominserv S.A.	445,004	409,171	1,781,485	1,638,034
KMG Rompetrol S.R.L	85,351	70,913	341,686	283,886
Rompetrol S.A.	2,048	2,156	8,199	8,631
Rompetrol Well Services S.A.	486,314	303,356	1,946,861	1,214,425
Palplast S.A.	7,446	6,406	29,809	25,645
Rompetrol Bulgaria JSC	22,098,554	16,626,627	88,467,141	66,561,376
Rompetrol Moldova SA	105,891,896	79,347,626	423,917,027	317,652,351
KMG Rompetrol Services Center	65,820	65,750	263,497	263,217
Midia Marine Terminal S.R.L.	283,758	192,615	1,135,968	771,096
Byron Navodari	12,727	10,094	50,950	40,409
Rominserv Valves Iaifo SRL	7,904	3,151	31,642	12,614
Uzina Termoelectrica Midia S.A.	9,337,667	8,353,430	37,381,482	33,441,286
Global Security Systems S.A.	55,271	52,809	221,266	211,410
TRG Petrol Anonim Sirketi	16,097,373	7,911,827	64,442,613	31,673,417
	803,899,600	440,819,585	3,153,808,655	1,733,059,626

Name of related party	Nature of transaction	Purchases and other costs 30-Jun-18 USD	30-Jun-17 USD	30-Jun-18 RON	30-Jun-17 RON
KazMunayGas Trading AG	Purchase of crude oil and other raw materials	1,501,910,296	905,335,551	6,012,597,488	3,624,329,811
Rominserv S.A.	Acquisition and maintenance of fixed assets	31,616,382	39,791,902	126,569,862	159,298,921
KMG International N.V.	Management services	5,448,040	4,736,381	21,810,139	18,961,154
KMG Rompetrol S.R.L	Management services	23,867,161	12,618,554	95,547,406	50,515,857
Rompetrol S.A.	Management services	17,853	11,781	71,471	47,163
Rompetrol Financial Group S.R.L.	Environmental services	786,056	537,209	3,146,818	2,150,609
Rompetrol Well Services S.A.	Interest on loan	236,681	158,414	947,505	634,179
KMG Rompetrol Services Center	Shared services	3,668,310	3,167,557	14,685,345	12,680,681
Midia Marine Terminal S.R.L.	Handling services/Transit	10,498,685	8,468,358	42,029,386	33,901,378
Rominserv Valves Iaifo SRL	Valves	47,237	46,785	189,104	187,294
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	16,405,308	13,362,452	65,675,370	53,493,904
Global Security Systems S.A.	Security and protection services	1,872,915	1,565,275	7,497,841	6,266,265
Tengizchevroil LLP	Liquefied Petroleum Gas	557,265	8,112	2,230,899	32,475
		1,596,932,189	989,808,331	6,392,998,634	3,962,499,691

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. At the moment 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 MPFR, 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.

(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))

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:

	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	USD	USD	RON	RON
Earnings				
Profit for the year attributable to ordinary equity holders of the parent entity	4,250,886	(8,087,790)	17,017,572	(32,377,849)
Number of shares				
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
Earnings per share *(US cents/share)*				
Basis	**0.010**	**(0.018)**	**0.040**	**(0.072)**

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 11.08 million) to be paid by the Parent based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 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 in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the 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 2.2 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) In December 2017, the National Agency for Tax Administration finalized the tax inspection in Rompetrol Rafinare (covering the period 2011-2015) for: VAT fiscal group (all entities from fiscal group were under fiscal control), income tax, withholding tax and excise.

Thorough the Assessment Decision (received in January 2018), there were imposed the following additional taxes: RON 26.1 million representing VAT (of which RON 13.1 million related to VAT of Rompetrol Rafinare SA the rest belonging to the VAT group companies), RON 6.5 million representing Rompetrol Rafinare SA withholding tax and decrease of Rafinare's fiscal loss with RON 144.4 million. The related penalties assessed are in amount of RON 16.3 million for all VAT group companies. The principal additional taxes and related penalties were partially paid and partially compensated with receivable taxes.

The Tax Inspection Report and the related tax decision were appealed on February 26, 2018, and the oral support of the appeal was held on April 20, 2018. Subsequently, the ANAF - General Directorate for Solving Complaints sent the Company through the notice dated July 4, 2018, that it requested additional information from the DGAMC Tax Inspectorate to resolve the dispute. According to the fiscal procedure code, the settlement of the appeal was prolonged by 3 months. At the time of these financial statements, the appeal is pending.

In 2017, in respect of the above-mentioned tax inspection, a provision in amount of USD 3.5 million (RON 13.65 million) was booked in relation to Rompetrol Rafinare (see notes 16 and 20). In the first quarter of 2018, the provision was reversed as a result of paying the taxes and taxes imposed and a provision for impairment of receivables of the same amount was recognized.

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 Rompetrol Rafinare S.A. ("RRC") and other individuals; these investigations were carried out at a formal level and materialized into different criminal proceeding activities (including specialized judicial expertise), currently undergoing the criminal prosecution phase. At the present date, only one of the former director of the Company who is involved in the investigation, still works for KMG International Group.

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

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

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

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

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

After two hearings in front of the Constanta Court, the case was assigned to be settled by the High Court of Justice and Cassation, who rejected in full the challenging submitted by Group's subsidiaries on June 17, 2016.

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 KMGI 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 KMGI 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 one 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 248/200 (regarding the privatization of RRC) and OUG 118/2003 (the issuance of bonds) taking into consideration the recent Constitutional Court decision no. 68/2017 by which

27.LEGAL MATTERS (continued)

the Court settled that the legislative process, as well as the aspects regarding the opportunity and/or lawfulness of a deed issued either by the Parliament and Government cannot be subject of a criminal inquiry and the Constitution provides other leverages assigned to other public authorities to control such kind of things. No reply received yet from DIICOT on this topic.

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

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

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

On April 12, 2018 DIICOT issued an Ordinance which cancelled the previous Ordinances dated July 17, 2017, September 18, 2017 and December 6, 2017 issued by the in-charge prosecutor of the file by which it was an extension of the inquiry to various individuals and/or some of the criminal offences have been approached in a worse manner for some of the defendants. Considering that those 3 ordinances cancelled have as background the April 2016 Ordinance issued by in-charge prosecutor by which the freezing orders were imposed over the assets of KMGI, the Group companies KMG International N.V., RRC, OEBShave submited on April 20, 2018 a new challenge in front of the High Court of Cassation and Justice for lifting the seizure. On May 22, 2018 the Court rejected again the challenges submitted by the Group. An appeal against this court resolution was submitted to assess from constitutional point of view if a legal provision based on which the challenges were rejected match with the Constitution principles. The first hearing of the appeal was scheduled for October 8, 2018.
A similar challenge against the freezing orders will be submitted to DIICOT to be settled either by the new prosecutor in-charge with the file or by the superior.

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

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

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 benefitted from the management and advertising service referred to; it has related justifying documents that were not taken into consideration by the tax authorities; and the Tax authorities did not consider the definition provided by the Fiscal Code and its Application Norms, as well as, applicable, Double Tax Treaties and Commentaries to the OECD model conventions as regards definition of royalties versus services.

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

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

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

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

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

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

Rompetrol Rafinare SA challanged, in May 2018, the tax decision issued following the re-audit for the amount of approximately RON 10 million. At the time of these financial statements, the appeal is pending.

Based on the Decision of the High Court of Cassation and Justice issued on October 12, 2017, requesting the completion of the transfer price file during the control period, the fiscal inspection authority of the ANAF requested the Company on June 19, 2018 to make available the information related to transactions with affiliated parties during the period 2007 - 2010.

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

27.LEGAL MATTERS (continued)

Litigation regarding CO2 emission allowances.

On February 28, 2011 Rompetrol Rafinare S.A. won the 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 CO_2 emission certificates for the entire period 2008-2012 (Decision 69/CA/2011). This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian Government, but the appeals were rejected by the High Court of Cassation and Justice of Justice on October 30, 2012 and the first court decision became final.

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020.

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

On October 11th, 2017, the court joined this file with File no. 712/36/2015, which had the same object (damages) but amounted to Euro 40 million (in accordance with a valuation of the Ministry of Environment itself) and was based on some new entered into force legal provisions.

On July 28th 2015, the Government issued its Decision no. 611/2015, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 in accordance with the final court decision of October 30 2012 and increasing the allocation of the Company with the amount of 2.577.940 CO_2 emission certificates; this decision should have been fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The EC approval was not delivered yet and the Government Decision has still not been effectively implemented up to this date.

The next hearing in the reunited Files 917/36/2013 and 712/36/2015 is on September 10, 2018. An expertise report was provided to the court in respect of the counter value of the certificates and following these proceedings a court decision will have to be issued accordingly. The counter value held by this recent expertise report is EUR 38.51 million. A second expert opinion was asked by the court and we expect that this second opinion will be provided and a first court decision will be issued until the end of this year.

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.

Even if Rompetrol Downstream to timely and fully observed its obligation to supply RATB with needed quantities of fuel during those 4 years, the related IT system was delivered gradually until September 16th, 2015, which lead to 4 court case (one per each agreement) initiated by RATB. The amounts requested by RATB 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;

27. LEGAL MATTERS (continued)

a) Case 1 - On October 16th,2015 RATB submitted to Court the claim for damages in amount of RON 62.4 million (about USD 15 million) (based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2617/25.10.2011). On October 27th,2015, based on the tender book terms and conditions, RATB executed the bank letter guarantee provided by Downstream for the amount of RON 5.7 million.

b) On January 25, 2018, the court has rejected the RATB's claim and admitted partially Downstream claim for reimbursement for the illegally enforcement by RATB of the LBG in amount of RON 5.7 million as well as the indemnity of RON 0.28 million as interests for delay payments by RATB of the fuel supplied.

c) Case 2 - RATB claimed for RON 65.5m (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2907/17.10.2012)..On 1 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision no. 321/30 January 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as unsubstantiated and the legal case was closed.

d) Case 3 - RATB claimed for RON 65.1 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3126/18.10.2013).

On 14 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision on 20 April 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as groundless and the legal case was closed.

e) Case 4 - RATB claimed for RON 5.7m (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3241/17.10.2014). First hearing was scheduled for 25 October 2016. At that hearing term, the court suspended the case' judgement until Case 1 will be definitively settled. Case' judgment still suspended.

Litigation between Rompetrol Rafinare and Navodari City Hall

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

a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16th, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the High Court of Cassation and Justice shall be scheduled later.

27.LEGAL MATTERS (continued)

b) Because the decision issued by Navodari City Hall of rejection the administrative complaint as being lack of object is based on Navodari Local Council Decision no.435/December 21, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties, Rompetrol Rafinare submitted a second action for partial annulment of Navodari Local Council Decision no. 435/December 21st, 2015. This action was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term was set on January 16th, 2017, when the appeal was rejected. The solution is final.

c) Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defence was submitted by Navodari City Hall and the first hearing term was established for February 22nd, 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 19th, 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the High Court of Cassation and Justice of Justice. The first hearing term before the High Court of Cassation and Justice was not yet scheduled.

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

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

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

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

27.LEGAL MATTERS (continued)

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

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

By the final conclusion of Preliminary Chamber procedure through the criminal sentence, no. 328 / 03.21.207 communicated to Rompetrol Rafinare on March 27, 2017 the court ordering, considering the fact that the prosecutor did not reply within procedural five days, to return the case to the Prosecutor's Office Court Appeal Constanta, finding relative nullity of the Ordinance no. 586 / P / 29.11.2016, irregularity of the indictment 586 / P / 12.7.2016 prosecutor failure to respond within procedural terms. The 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. According with court decision of September 29, 2017, the file shall be sent back to the prosecutor office whereas it has been ascertained that ordinance no. 586/P/2016 of 29.11.2016 and the subsequent Act of Indictment no. 586/P/2016 din 07.12.2016 of the Prosecutor's Office by Constanta Court of Appeal are subject to relative nullity and that the object and limits of judgment cannot be established. The solution has been challenged by Prosecutor's Office, the contestation was rejected, and the criminal file was sent back to the prosecutor's office of Constanta in order to resume the criminal prosecution activities within the limits of the legality provisions. RRC received a subpoena, as a defendant, for June 26, 2018, when the charges were brought to light, being the same, with changes in the legal framing of the facts.
On the other hand, it was admitted the request filed by Rominserv for the plea of unconstitutionality of certain provisions to be settled further by the Constitutional Court. The respective provisions concern the possibility to rectify the document instituting court proceedings during the preliminary chamber procedure.

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

Also, on May 25, 2017 Rompetrol Rafinare and Rominserv received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. On August 16th, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labor Inspectorate (in cumulated amount of RON 0.028 million). The minutes of the fine have been appealed by both parties involved. On December 14, 2017, the court has requested to Rompetrol Rafinare and to the Territorial Labour Inspectorate to send written specifications regarding optional suspension of the case, pending resolution of the criminal file. In the RRC file the Court suspended the case until the criminal file will be solved. In RIS file the court request supplementary information from Prosecutor's Office by Constanta Court of Appeal. We did not receive any feedback in this respect, the court set a new hearing, on September 21, 2018.

27.LEGAL MATTERS (continued)

Other litigations

Vega residual pools remediation project

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

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

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

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

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

a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14,2017. The ENG point of view was received on January 17th 2018;

b) Preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017; the legal response time, according to the contentious law is 30 days;

c) Suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; On February 5th 2018 the Constanta court has accepted the request for suspension of the Prior Notice no. 149/21.11.2017 and suspended the effects of prior notification until the request for annulment brought against the same administrative act will be solved; The Constanta court decision was appealed by PEPA, and on the hearing dated June 21 2018, the appeal was rejected.

d) the request for annulment of the Prior Notice was registered at the Constanta court on April 3rd 2018., with the first hearing on September 27, 2018.

e) Complaint against the fine (between RON 50,000-100,000) received from ENG, submitted to the Ploiesti court on November 29, 2017; the court reject the complaint. the court solution was appealed.

f) Request for annulment of the Finding Note no. 299/15.11.2017 issue by Environment National Guard-Prahova Commissariat, registered at Constanta court;

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

On May 8, 2018 a request was made for revision of the actual Environmental Agreement by the company, rejected by PEPA by Decision no. 77 / 10.07.2018 which will be challenged according to the procedure governed by the law of the administrative contentious.

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

(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))

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

Other commitments

As of June 30,2018, 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 68.05 million (2017: USD 28.89 million). As of June 30, 2018, Rompetrol Downstream S.R.L has contracted capital commitments of USD 3.4 million (2017: USD 3.9 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 5.47 million (USD 4.5 million in 2017).

Sale and purchase commitments

As of June 30, 2018, 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 1,611.23 million (2017: USD 2,466.58 million) and for sales of petroleum, petrochemicals products and utilities sales of USD 1,235.30 million (2017: USD 1,967.94 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".

29.2. Gearing ratio

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

	June 30, 2018 USD	December 31, 2017 USD
Debt (excluding shareholder loans and related parties)	288,282,078	238,750,435
Cash and cash equivalents	(14,356,256)	(12,592,193)
Net debt	**273,925,822**	**226,158,242**
Equity (including shareholder loans and related parties)	851,655,793	880,557,756
Net debt to equity ratio	**0.32**	**0.26**

(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))

29.3. Categories of financial instruments and fair values

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

	June 30, 2018 USD	December 31, 2017 USD
Financial assets		
Trade and other receivables	446,053,117	410,686,063
Long-term receivables	2,957,288	1,599,013
Available for sale investments	18,583	18,583
Derivative financial instruments	-	-
Cash and cash equivalents	14,356,256	12,592,193
TOTAL FINANCIAL ASSETS	**463,385,244**	**424,895,852**
Financial liabilities		
Long-term borrowings	240,000,000	-
Derivative financial instruments	3,470,067	48,387
Short term borrowings from shareholders	142,422,474	176,211,784
Other non-current liabilities	186,647	207,676
Trade and other payables	866,061,720	888,094,595
Short-term borrowings banks	33,594,875	224,063,232
TOTAL FINANCIAL LIABILITIES	**1,285,735,783**	**1,288,625,674**

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.

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 2018, 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.

(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))

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	June 30, 2018 USD	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	446,053,117	446,053,117	-	-
Long-term receivables	2,957,288	2,957,288	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	-	-	-	-
Cash and cash equivalents	14,356,256	14,356,256	-	-
TOTAL FINANCIAL ASSETS	463,385,244	463,385,244	-	-
Financial liabilities				
Long-term borrowings	240,000,000	240,000,000.00	-	
Derivative financial instruments	3,470,067	-	3,470,067	-
Short term borrowings from shareholders	142,422,474	142,422,474	-	-
Other non-current liabilities	186,647	186,647	-	-
Trade and other payables	866,061,720	866,061,720	-	-
Short-term borrowings banks	33,594,875	33,594,875	-	-
TOTAL FINANCIAL LIABILITIES	1,285,735,783	1,282,265,716	3,470,067	-

	December 31, 2017 USD	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	410,686,063	410,686,063	-	-
Long-term receivables	1,599,013	1,599,013	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	-	-	-	-
Cash and cash equivalents	12,592,193	12,592,193	-	-
TOTAL FINANCIAL ASSETS	424,895,852	424,895,852	-	-
Financial liabilities				
Long-term borrowings	-	-	-	-
Derivative financial instruments	48,387	-	48,387	-
Short term borrowings from shareholders	176,211,784	176,211,784	-	-
Other non-current liabilities	207,676	207,676	-	-
Trade and other payables	888,094,595	888,094,595	-	-
Short-term borrowings banks	224,063,232	224,063,232	-	-
TOTAL FINANCIAL LIABILITIES	1,288,625,674	1,288,577,287	48,387	-

During the reporting period ending 30 June 2018 and 31 December 2017, 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:

	June 30, 2018 USD	December 31, 2017 USD
Derivative financial asset	-	-
Derivative financial liability	(3,470,067)	(48,387)
Net position - asset/(liability)	(3,470,067)	(48,387)

The derivative instruments liability balance in respect of fair value hedge against the inventories includes an adjustment of USD 3.4 million.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Income Statement:

	June 30, 2018 USD	June 30, 2017 USD
Unrealised (gains)	-	-
Net position - (gain)/loss - in Cost of sales	-	-
Realised gains/(losses) - net	7,428,565	1,020,476
Total position - loss/(gain) - in Cost of sales	**7,428,565**	**1,020,476**

	June 30, 2018	December 31, 2017
Derivative asset/(liability) 2016	**(48,387)**	**(317,790)**
Forex unrealized (hedging of forex)	-	-
Cash payments	(3,421,680)	(42,808)
Reserves	**-**	**312,211**
Derivative asset/(liability) 2017	**(3,470,067)**	**(48,387)**

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.

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.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 evolution, the hedge strategy was split between futures and options while a certain quantity, higher than the technological stock, remain unhedged.

Trading 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.

The company also had hedge operations for refinery margins. In terms of Refinery Margin Hedge. In 2017, the net impact of the commodity hedges (physical result –gain- plus paper result –loss- for hedged stocks) was USD 8.5 million (2016: net gain of USD 10.4 million). In the same time, the company results were positively impacted by the inventory loss related to the base operating stock in refinery but considering such stock is constant in time, the loss is only on paper not on cash.

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 29% 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.

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 August 10, 2018.

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

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

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

Facilities granted to Rompetrol Rafinare S.A. by Bancpost in the amount of EUR 30 million and EUR 27.97 million respectively, were extended until August 31, 2018.