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[www.rompetrol.com](http://www.rompetrol.com)**REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE  
ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED  
AS OF JUNE 30, 2018**

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

**HIGHLIGHTS – CONSOLIDATED**

	H1 2018	H1 2017	%	H1 2018	H1 2017	%
	USD	USD		RON	RON	
<b>Financial</b>						
Gross Revenues	2,604,142,235	1,718,414,575	52%	10,425,162,609	6,879,329,069	52%
Net Revenues	1,986,047,716	1,274,423,444	56%	7,950,744,821	5,101,899,374	56%
EBITDA	85,880,579	57,538,863	49%	343,805,722	230,345,330	49%
EBITDA margin	4.3%	4.5%		4.3%	4.5%	
EBIT	27,866,936	7,434,687	275%	111,559,702	29,763,281	275%
Net profit / (loss)	2,778,742	(7,030,136)	N/A	11,124,138	(28,143,745)	N/A
Net Profit / (loss) margin	0.1%	-0.6%		0.1%	-0.6%	

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

Rompetrol Rafinare consolidated gross revenues reached USD 2.604 billion in first semester of 2018, higher by 52 % as against the same period in 2017 influenced by the volatility of international quotations for petroleum products and by the increase in the volume of products sold.

The consolidated net result in 2018 was impacted by changes in accounting policy, from cost model to revaluation model, as at December 31, 2017 for buildings category in non-current assets.

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## ECONOMIC ENVIRONMENT

		H1 2018	H1 2017	%
Brent Dated	USD/bbl	70.58	51.72	36%
Ural Med	USD/bbl	68.93	50.40	37%
Brent-Ural Differential	USD/bbl	1.65	1.32	25%
Premium Unleaded 10 ppm FOB Med	USD/t	669	531	26%
Diesel ULSD 10 ppm FOB Med	USD/t	623	464	34%
RON/USD Average exchange rate		3.84	4.19	-8%
RON/USD Closing exchange rate		4.00	3.99	0%
RON/EURO Average exchange rate		4.65	4.54	3%
RON/EURO Closing exchange rate		4.66	4.55	2%
USD/EURO Closing rate		1.16	1.14	2%
Inflation in Romania*		2.42%	0.40%	506%

Source: Platts, \* INSSE

Dated Brent increased by +18.9\$/bbl. (+36.5%) in H1 2018 vs. H1 2017 and settled to an average of 70.6\$/bbl., with the highest level since November 2014 registered on 22<sup>nd</sup> of May ~ 80\$/bbl.

OPEC and its allies appear to have accomplished their mission of reducing global oil stocks to desired levels, according to International Energy Agency, signaling that the market could become too tight if supply remains restrained. The IEA, which coordinates the energy policies of industrialized nations, said stocks in developed countries could fall to their 5-year average - a metric used by OPEC to measure the success of output cuts - as early as May.

In May, the market increased sharply after U.S. President Donald Trump abandoned an international nuclear deal with Iran, likely curbing the OPEC-member's crude exports in an already tight market.

Saudi Arabia is monitoring the impact of the U.S. withdrawal from the Iran nuclear deal on oil supplies and is ready to offset any shortage, but it will not act alone to fill the gap. OPEC is more focused on identifying the right level of oil inventory than the impact on supplies of new U.S. sanctions on Iran.

European oil companies are not ruling out reducing Iranian oil imports after the threat of new U.S. sanctions, with some expecting banking issues to stop trade, but there was no rush to immediately cut volumes.

During June the crude price decreased as OPEC has agreed to boost oil production, achieving a last-minute compromise that overcame Iran's threats to veto any supply hike. "We have an agreement" to make a 1 million barrel-a-day adjustment on paper to the production cuts implemented by the group in cooperation with allies including Russia, Saudi Energy Minister Khalid Al-Falih told reporters in Vienna. In reality, the accord adds

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600,000 barrels a day of oil to the market, about 0.5 percent of global supply, because several members are unable to raise output.

Oil prices look set to stay strong for the rest of this year and in 2019 thanks to supply disruptions and as extra oil from OPEC fails to meet rising demand, a Reuters poll showed on 29<sup>th</sup> of June. A survey of 35 economists and analysts forecasts Brent crude will average \$72.58 a barrel in 2018, 90 cents higher than the \$71.68 forecast in May's poll and compared with the \$71.15 average so far this year.

The European Refinery margins decreased during H1 2018 by -5.2\$/MT (-10.1%) vs. H1 2017 and settled to an average of 46.46\$/MT as product prices failed to keep up with the sharp rise on the crude side.

European margins started the year at a record low level, around 30\$/MT. This pressure was coming from the high run rates in US amid still elevated European runs. US refineries were pumping at maximum taking advantage of the cheaper feedstock (i.e. WTI- Dated Brent differential up to -7\$/bbl.) putting pressure on Europe Margins.

But in February and March the Refinery Margins recovered consistently and even reached 62\$/MT due to heavy maintenance in U.S. which helped the European cracks. Despite this increase in the last part of Q1, the average level of the margins (approx. 45.8\$/MT) was 7% lower than Q1 2017.

In Q1, Jet cracks surged to high levels (16.3\$/bbl.) last seen in 2014 as the European market remained tight due to low imports from other regions. European jet fuel demand should continue growing strongly (+40,000 b/d y-o-y in March), keeping the regional balance tighter y-o-y.

Gasoline cracks decreased during the first part of Q2 by -1.7\$/bbl. to 10\$/bbl. The fall was less pronounced in the Med as the unplanned outage of a 46,000 b/d at the Bilbao refinery in Spain (Reuters) likely provided some support.

European ULSD cracks have been on a downward trend during April, but overall remained close to the high levels reached in March (12.5\$/bbl.).

In the second part of Q2 the European Refinery margins recovered as import requirements remained high with tightness in the Americas and limited Russian exports keeping European cracks supported.

Refined product futures in the Europe were the actual pricing leaders in the second part of Q2, with gasoline and ULSD futures up between 3.1% and 4.4%. Even though the reaction to the Iran nuclear deal situation has been bullish, it can be argued that the market is still somewhat confused.

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

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## REFINING SEGMENT

		H1 2018	H1 2017	%	H1 2018	H1 2017	%
Financial		USD	USD		RON	RON	
Gross Revenues	USD/RON	2,247,929,317	1,413,931,408	59%	8,999,135,435	5,660,391,606	59%
Net Revenues	USD/RON	1,714,237,781	1,046,925,644	64%	6,862,608,109	4,191,157,431	64%
EBITDA	USD/RON	76,739,772	42,246,205	82%	307,212,329	169,124,232	82%
EBITDA margin	%	4.5%	4.0%		4.5%	4.0%	
EBIT	USD/RON	36,525,770	8,393,609	335%	146,223,616	33,602,135	335%
Net profit / (loss)	USD/RON	17,471,003	(17,210,246)	N/A	69,941,668	(68,897,779)	N/A
Net profit / (loss) margin	%	1.0%	-1.6%		1.0%	-1.6%	
Gross cash refinery margin/tonne (Petromidia)	USD/(RON)/tonne	49.62	39.55	25%	198.66	158.31	25%
Gross cash refinery margin/bbl (Petromidia)	USD (RON) /bbl	6.83	5.45	25%	27.35	21.80	25%
Net cash refinery margin/tonne (Petromidia)	USD/(RON) /tonne	24.07	16.49	46%	96.36	66.02	46%
Net cash refinery margin/bbl (Petromidia)	USD (RON) /bbl	3.31	2.27	46%	13.27	9.09	46%
<b>Operational</b>							
Feedstock processed in Petromidia refinery	thousand tonnes	3,087	2,422	27%			
Feedstock processed in Vega refinery	thousand tonnes	194	152	28%			
Gasoline produced	thousand tonnes	856	626	37%			
Diesel & jet fuel produced	thousand tonnes	1,562	1,288	21%			
Motor fuels sales - domestic	thousand tonnes	1,084	950	14%			
Motor fuels sales - export	thousand tonnes	1,210	859	41%			
Export	%	53%	47%				
Domestic	%	47%	53%				

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

Rompetrol Rafinare is a part of KMG International Group and its operates the Petromidia Refinery – the biggest entity of the kind in Romania and one of the most modern in the Black Sea region and Vega Refinery – the oldest refinery in operation (1905) and the sole producer of bitumen and hexane, as well as the Petrochemical division – sole polymer manufacturer in the country.

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The gross revenues of the refining segment reached USD 2.247 billion in H1 2018 higher by 59% compared with H1 2017, influenced by the volatility of international quotations for petroleum products and by higher volume of products sold.

In H1 2018, the total throughput for Petromidia refinery was 3.08 million tons by 27.44% higher compared with the same period last year when the total throughput was 2.42 million tons; the refining capacity utilization was 98.45% higher by 28.05% compared with the same period last year.

In respect of Vega refinery, in H1 2018, the total throughput refinery was 193.929 thousand tons by 27.57% higher compared with the same period last year when the total throughput was 152.017 thousand tons and the refining capacity utilization was 117.53% higher by 25.4% compared with the same period last year.

In April 2018, a planned slowdown activity was carried out within the Petromidia refinery aiming to keep the installations in optimal operating parameters in order to ensure the units maximum flow and the quality of the obtained products. The main revision works included the following recurrent technological operations: catalyst change in the Petrol Diesel Hydro-Fuel Plant; decoke furnace equipment in Delayed Coking Plant and catalyst regeneration in Catalytic Reforming Plant.

The company's financial results were positively influenced by favorable market conditions (refining margin of ~ 50 \$/t) and by production and energy process optimization programs (increase of white products yields) and operating costs optimization, programs that started in the year 2014 and continued until present days.

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 769 million in H1 2018.



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		H1 2018	H1 2017	%	H1 2018	H1 2017	%
Financial		USD	USD		RON	RON	
Revenues	USD/RON	114,352,408	79,984,194	43%	457,786,995	320,200,724	43%
EBITDA	USD/RON	(8,831,546)	(3,489,295)	153%	(35,355,328)	(13,968,695)	153%
EBIT	USD/RON	(16,977,626)	(10,833,524)	57%	(67,966,531)	(43,369,846)	57%
Net profit / (loss)	USD/RON	(19,090,277)	(5,502,836)	247%	(76,424,107)	(22,029,502)	247%
<b>Operational</b>							
Propylene processed	thousand tonnes	78	60	30%			
Ethylene processed	thousand tonnes	35	28	25%			
Total polymers production	thousand tonnes	82	65	26%			
Sold from own production	thousand tonnes	106	82	28%			
Sold from trading	thousand tonnes	2	0	1907%			
Total sold		108	83	31%			
Export	%	50%	48%				
Domestic	%	50%	52%				

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

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

The current petrochemicals activity is carried out through PP and LDPE units.

In terms of low density polyethylene unit (LDPE), the petrochemicals segment works 100% with ethylene from import, and for PP (polypropylene) unit is ensured through raw material produced and distributed entirely by Petromidia refinery.

In mid-April 2018, the HDPE plant was put into operation at optimum parameters, but due to unfavorable market conditions characterized by low petrochemicals margins, it was shut down in mid-May 2018. At company level internal analyzes are carried out on the potential measures to mitigate the negative impact of the market, the company relying on the rapid restart of the unit when the market conditions will improve.

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

In H1 2018, the total polymers production for Petrochemicals area was 81.644 thousand tons by 26.21 % higher compared with the same period last year when the total polymers production was 64.690 thousand tons. The deviation was mainly triggered by the planned shutdown of the PP unit in May 2017 and the restart of HDPE unit in April 2018.

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## MARKETING SEGMENT

		H1 2018	H1 2017	%	H1 2018	H1 2017	%
		USD	USD		RON	RON	
<b>Financial</b>							
Gross Revenues	USD/RON	1,455,553,276	1,052,015,776	38%	5,827,016,430	4,211,534,756	38%
EBITDA	USD/RON	19,130,209	19,174,620	0%	76,583,966	76,761,756	0%
EBIT	USD/RON	7,414,166	9,838,937	-25%	29,681,130	39,388,216	-25%
Net profit / (loss)	USD/RON	5,429,044	15,648,251	-65%	21,734,092	62,644,643	-65%
<b>Operational</b>							
Fuels quantities sold in retail	thousand tonnes	329	319	3%			
Fuels quantities sold in wholesale	thousand tonnes	598	539	11%			
LPG quantities sold	thousand tonnes	226	171	32%			

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

In H1 2018 the marketing segment had a turnover of over USD 1.455 billion, higher by 38% compared with the same period of 2017.

In H1 2018 compared to same period in 2017, the Platts quotations (FOB Med Italy-mean), expressed in the currency of reference, USD were on average by 26% higher for gasoline and by 34% higher for diesel. The 8% appreciation of the RON against the US dollar in H1 2018 vs. H1 2017 has made the effective appreciation in the national currency of the two fuel quotes to be proportionally lower than the dollar appreciation indicates at first glance.

During H1 2018, Rompetrol Downstream continued the implementation of important investment projects, like opening 2 new station and 57 new cuves and 5 internal bases, rebranding of gas stations, LPG skids, partner stations and express stations.

As of June 2018, the Rompetrol Downstream's distribution segment contained 869 points of sale, including the network of owned stations, partner stations and mobile stations: expres, cuves and internal bases.



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## APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2018, UNAUDITED

Amounts in USD/RON

	H1 2018	H1 2017	%	H1 2018	H1 2017	%
	USD	USD		RON	RON	
Gross Revenues	2,604,142,235	1,718,414,575	52%	10,425,162,609	6,879,329,069	52%
Sales taxes and discounts	(618,094,519)	(443,991,131)	39%	(2,474,417,788)	(1,777,429,695)	39%
<b>Net revenues</b>	<b>1,986,047,716</b>	<b>1,274,423,444</b>	<b>56%</b>	<b>7,950,744,821</b>	<b>5,101,899,374</b>	<b>56%</b>
Cost of sales	(1,849,997,164)	(1,175,922,909)	57%	(7,406,093,648)	(4,707,572,183)	57%
<b>Gross margin</b>	<b>136,050,552</b>	<b>98,500,535</b>	<b>38%</b>	<b>544,651,173</b>	<b>394,327,191</b>	<b>38%</b>
Selling, general and administration	(101,103,301)	(88,165,446)	15%	(404,746,846)	(352,952,730)	15%
Other expenses, net	(7,080,315)	(2,900,402)	144%	(28,344,625)	(11,611,180)	144%
<b>EBIT</b>	<b>27,866,936</b>	<b>7,434,687</b>	<b>275%</b>	<b>111,559,702</b>	<b>29,763,281</b>	<b>275%</b>
Finance, net	(22,175,397)	(13,669,228)	62%	(88,774,765)	(54,722,020)	62%
Net foreign exchange gains / (losses)	(3,192,346)	(380,525)	739%	(12,779,918)	(1,523,356)	739%
<b>EBT</b>	<b>2,499,193</b>	<b>(6,615,066)</b>	<b>N/A</b>	<b>10,005,019</b>	<b>(26,482,095)</b>	<b>N/A</b>
Income tax	279,549	(415,070)	N/A	1,119,119	(1,661,650)	N/A
<b>Net result</b>	<b>2,778,742</b>	<b>(7,030,136)</b>	<b>N/A</b>	<b>11,124,138</b>	<b>(28,143,745)</b>	<b>N/A</b>
<b>EBITDA</b>	<b>85,880,579</b>	<b>57,538,863</b>	<b>49%</b>	<b>343,805,722</b>	<b>230,345,330</b>	<b>49%</b>

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## APPENDIX 2 – CONSOLIDATED BALANCE SHEET JUNE 30, 2018, UNAUDITED

Amounts in USD/RON

	June 30, 2018 USD	December 31, 2017 USD	%	June 30, 2018 RON	December 31, 2017 RON	%
<b>Assets</b>						
<b>Non-current assets</b>						
Intangible assets	7,244,814	8,252,455	-12%	29,003,165	33,037,054	-12%
Goodwill	82,871,706	82,871,706	0%	331,760,302	331,760,302	0%
Property, plant and equipment	1,222,252,201	1,254,559,178	-3%	4,893,042,236	5,022,376,757	-3%
Financial assets and other	39,197,528	37,839,253	4%	156,919,463	151,481,881	4%
<b>Total Non Current Assets</b>	<b>1,351,566,249</b>	<b>1,383,522,592</b>	<b>-2%</b>	<b>5,410,725,166</b>	<b>5,538,655,994</b>	<b>-2%</b>
<b>Current assets</b>						
Inventories	345,655,881	342,623,825	1%	1,383,764,187	1,371,625,961	1%
Trade and other receivables	466,498,894	436,209,507	7%	1,867,535,023	1,746,277,520	7%
Cash and cash equivalents	14,356,256	12,592,193	14%	57,472,399	50,410,326	14%
<b>Total current assets</b>	<b>826,511,031</b>	<b>791,425,525</b>	<b>4%</b>	<b>3,308,771,609</b>	<b>3,168,313,807</b>	<b>4%</b>
<b>Total assets</b>	<b>2,178,077,280</b>	<b>2,174,948,117</b>	<b>0%</b>	<b>8,719,496,775</b>	<b>8,706,969,801</b>	<b>0%</b>
<b>Equity and liabilities</b>						
<b>Total Equity</b>	<b>709,233,319</b>	<b>704,345,972</b>	<b>1%</b>	<b>2,839,273,747</b>	<b>2,819,708,231</b>	<b>1%</b>
<b>Non-current liabilities</b>						
Long-term debt	240,000,000	-	N/A	960,792,000	-	N/A
Hybrid instrument - long-term portion	14,687,203	14,687,203	0%	58,797,280	58,797,280	0%
Provisions	80,635,060	85,001,042	-5%	322,806,336	340,284,672	-5%
Other	4,484,153	3,923,537	14%	17,951,410	15,707,095	14%
<b>Total non-current liabilities</b>	<b>339,806,416</b>	<b>103,611,782</b>	<b>228%</b>	<b>1,360,347,026</b>	<b>414,789,047</b>	<b>228%</b>
<b>Current Liabilities</b>						
Trade and other payables	949,550,129	966,666,960	-2%	3,801,334,033	3,869,857,842	-2%
Derivative financial instruments	3,470,067	48,387	7071%	13,891,719	193,708	7071%
Short-term debt	176,017,349	400,275,016	-56%	704,650,250	1,602,420,973	-56%
<b>Total current liabilities</b>	<b>1,129,037,545</b>	<b>1,366,990,363</b>	<b>-17%</b>	<b>4,519,876,002</b>	<b>5,472,472,523</b>	<b>-17%</b>
<b>Total equity and liabilities</b>	<b>2,178,077,280</b>	<b>2,174,948,117</b>	<b>0%</b>	<b>8,719,496,775</b>	<b>8,706,969,801</b>	<b>0%</b>

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## Matters regarding 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 Kazakhstan LTD)	Company owned by KMG International Group
Rominserv S.A.	Company owned by KMG International Group
Rominserv Valves Iafo SRL	Company owned by KMG International Group
Rominservices Therm S.R.L.	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
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
TRG Petrol Anonim Sirketi	Company owned by 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 period 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.

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Name of related party	Receivables 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
Rominerv 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
Rominerv Valves Iai SRL	30,955	22,555	123,922	90,294
Rominerv 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
<b>Total</b>	<b><u>150,377,952</u></b>	<b><u>138,064,194</u></b>	<b><u>578,200,968</u></b>	<b><u>552,712,389</u></b>

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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
<b>Total</b>	<b>920,094,157</b>	<b>963,191,608</b>	<b>3,683,412,938</b>	<b>3,855,944,962</b>

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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
Rominerv 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
Rominerv 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
	<u>803,899,600</u>	<u>440,819,585</u>	<u>3,153,808,655</u>	<u>1,733,059,626</u>

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
Rominerv 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
Rominerv 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
		<u>1,596,932,189</u>	<u>989,808,331</u>	<u>6,392,998,634</u>	<u>3,962,499,691</u>

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

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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.

## Risk Management

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

### Interest rate risk

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

### Foreign exchange risk

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

### Liquidity and cash flow risks

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

One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2018 the company enjoyed continuous financing resources at the needed levels and ensured that no cases of temporary lack of financial resources or of lack of liquidity of the company occurred, as a result of selling products guaranteed with payment instruments and negotiating receipt terms from clients and payment terms to suppliers that are advantageous, maintaining at the same time a good relation with the business partners. Rompetrol Rafinare is part of the cash pooling facility of the KMG Group and therefore can cover unexpected cash outflows by drawing from the facility.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily for

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trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

- *Trade receivables*

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

- *Financial instruments and bank deposits*

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

### Commodity price risk

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

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

Trading activities are separated into physical effective transactions (purchase of raw materials and sales of petroleum to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical effective transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased).

The Group sells or buys the equivalent number of future contracts based on the current position at that particular moment. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. The company also had hedge operations for refinery margins.

### Operational risk

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

### Subsequent events

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

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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 amount of EUR 30, respectively EUR 27.97 million were extended until August 31, 2018.

**Note:**

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

The functional currency, as basis for preparing the financial statements, is USD. RON currency is used as currency for presenting the informations in USD, according to the International Financial Reporting Standards. All the RON information were obtained by multiplying the USD values with the exchange rate USD/RON = 4.0033 as of 30 June 2018.

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

Catalin Dumitru

General Manager

Yedil Utekov



Financial Manager

Vasile-Gabriel Manole

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