

**ROMPETROL RAFINARE S.A.**

**STANDALONE FINANCIAL STATEMENTS**

**Prepared in compliance with**

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

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

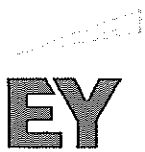
**31 DECEMBER 2018**

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as at 31 December 2018

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## RAPORTUL AUDITORULUI INDEPENDENT INDEPENDENT AUDITOR'S REPORT

Catre actionarii Rompetrol Rafinare S.A.  
*To the Shareholders of Rompetrol Rafinare S.A.*

Report asupra auditului situatiilor financiare  
*Report on the Audit of the Financial Statements*

### Opinia *Opinion*

Am auditat situatiile financiare ale societatii Rompetrol Rafinare S.A. („Societatea”) cu sediul social in Bulevardul Navodari, nr. 215, Pavilion Administrativ, 907500 - Navodari, Romania, identificata prin codul unic de inregistrare fiscala RO1860712, care cuprind situatia pozitiei financiare la data de 31 decembrie 2018, respectiv contul de profit si pierdere, alte elemente ale rezultatului global, situatia modificarilor capitalului propriu si situatia fluxurilor de trezorerie pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative.

*We have audited the financial statements of Rompetrol Rafinare S.A. (the Company) with official head office in 215 Navodari Boulevard, Administrative Pavilion, 907500 - Navodari, Romania, identified by sole fiscal registration number RO1860712, which comprise the statement of financial position as at December 31, 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.*

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a Societatii la data de 31 decembrie 2018, ca si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare.

*In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.*



## Bazele opiniei *Basis for opinion*

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA), Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului din 16 aprilie 2014 („Regulamentul (UE) nr. 537/2014”) si Legii nr.162 /2017 („Legea 162/2017”).

Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare” din raportul nostru.

Suntem independenti fata de Societate conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA), conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania, inclusiv Regulamentul (UE) nr. 537/2014 si Legea 162/2017, si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra.

*We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 (“Regulation (EU) No. 537/2014”) and Law 162/2017 („Law 162/2017”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.*

## Aspecte cheie de audit *Key audit matters*

Aspectele cheie de audit sunt acele aspecte care, in baza rationamentului nostru profesional, au avut cea mai mare importanta pentru auditul situatiilor financiare din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare in ansamblu, si in formarea opiniei noastre asupra acestora, si nu emitem o opinie separata cu privire la aceste aspecte cheie.

*Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.*

Pentru fiecare aspect de mai jos, am prezentat in acel context o descriere a modului in care auditul nostru a abordat respectivul aspect.

*For each matter below, our description of how our audit addressed the matter is provided in that context.*



Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare” din raportul nostru, inclusiv in legatura cu aceste aspecte cheie. In consecinta, auditul nostru a inclus efectuarea procedurilor proiectate sa raspunda la evaluarea noastra cu privire la riscul de erori semnificative in cadrul situatiilor financiare. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastra de audit asupra situatiilor financiare anexate.

*We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these matters.*

*Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.*

Aspecte cheie de audit	Modul in care auditul nostru a abordat aspectul cheie de audit
<p><b>Testarea pentru depreciere a imobilizarilor corporale si investitiilor in filiale</b></p>	
<p>Informatiile prezentate de Rompetrol Rafinare cu privire la imobilizarile corporale si investitiile in filiale, inclusiv cu privire la deprecierea aferenta, sunt incluse in nota 5 si respectiv nota 6.</p>	
<p>Imobilizarile corporale si investitiile in filiale sunt semnificative pentru auditul nostru, avand in vedere importanta pozitiei bilantiere de 3.623 milioane RON si respectiv 1.629 milioane RON la 31 decembrie 2018. De asemenea, evaluarea conducerii cu privire la indicatorii de depreciere a unitatilor generatoare de numerar (UGN) si a investitiilor implica analiza unor surse de informatii diverse, inclusiv a factorilor cu privire la mediul economic si a factorilor specifici industriei.</p> <p>Industria de petrol si gaze a trecut prin schimbari semnificative ca urmare a declinului preturilor petrolului si gazelor in 2014, urmata de o volatilitate crescuta a preturilor. La 31 decembrie 2018 conducerea a identificat indicatori de depreciere si a efectuat testari pentru depreciere separate cu privire la imobilizarile corporale ale celor doua UGN ale Societatii (Rafinare, cu o valoare contabila neta a imobilizarilor corporale de 3.083 milioane RON si Petrochimie cu o valoare contabila neta o imobilizarilor corporale de 372 milioane</p>	<p>Procedurile noastre de audit au inclus, printre altele:</p> <ul style="list-style-type: none"> <li>• am analizat si evaluat judecata conducerii cu privire la existenta indicatorilor de depreciere pentru imobilizari corporale si respectiv investitiile in filiale, luand in considerare, de asemenea, daca testul de depreciere a acoperit toate UGN /activele individuale semnificative pentru care au existat indicatori de depreciere la sfarsitul perioadei de raportare;</li> <li>• am comparat volumele de productie/vanzari si costurile actuale in 2018 ale fiecarei UGN cu volumele de productie/vanzari si costuri estimate in bugetul pregatit pentru 2018;</li> <li>• am comparat preturile viitoare pe termen scurt si lung pentru titei si gaze si marjele produselor folosite in bugetele Societatii cu previziunile analistilor si cele adoptate de alte societati internationale din domeniul petrolier;</li> </ul>



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<p>RON), rezultatul fiind absenta necesitatii recunoasterii unei pierderi din depreciere. De asemenea, a fost efectuata o analiza a indicatorilor de depreciere pentru investitiile in filialele Societatii (Rompetroil Downstream S.R.L, Rompetroil Petrochemicals S.R.L., Rom Oil S.R.L., Rompetroil Logistics S.R.L., Rompetroil Quality Control S.R.L.)</p> <p>Aceasta testare pentru depreciere este semnificativa pentru auditul nostru deoarece procesul de evaluare este complex, implica rationamente semnificative ale conducerii si se bazeaza pe ipoteze care sunt afectate de conditiile de piata viitoare din Romania si tarile invecinate.</p>	<ul style="list-style-type: none"> <li>• am evaluat acuratetea istorica a bugetelor si estimarilor conducerii prin compararea lor cu performanta efectiv realizata si cu cea a anilor anteriori;</li> <li>• am implicat specialistii nostri evaluatori interni pentru a ne asista la evaluarea ipotezelor-cheie si a metodologiilor aplicate de Societate pentru testarea de depreciere a imobilizarilor corporale. Evaluarea noastra s-a axat pe estimarea ratei de actualizare folosite, pe analiza privind sensibilitatea valorilor recuperabile ale UGN la modificarile ipotezelor semnificative, precum si pe ipotezele-cheie aplicate la estimarea fluxurilor de numerar viitoare pentru UGN respective (cum ar fi preturile de vanzare preconizate, volumele de productie/vanzare, marjele produselor, modificarile capitalului de lucru, etc.), analizand conformitatea acestora cu mediul economic general si cel specific industriei, cu informatiile de piata relevante disponibile si cu planurile de afaceri ale Societatii;</li> <li>• am testat acuratetea matematica a modelului si conformitatea acestuia cu cerintele Standardelor Internationale de Raportare Financiara.</li> </ul> <p>Am evaluat de asemenea caracterul adecvat al informatiilor prezentate de Rompetroil Rafinare cu privire la imobilizarile corporale si investitiile in filiale, incluzand testarea de depreciere aferenta.</p>
<p><b>Recuperabilitatea creantei privind impozitul pe profit amanat</b></p> <p>Informatiile prezentate de Rompetroil Rafinare cu privire la creanta privind impozitul pe profitul amanat sunt incluse in nota 21.</p>	
<p>Dupa cum este prezentat in nota 21 la situatiile financiare, la 31 decembrie 2018 Societatea a recunoscut o creanta de impozit pe profit amanat de 163 milioane RON, rezultand din pierderi fiscale reportate.</p>	<p>Procedurile noastre de audit s-au axat pe evaluarea ipotezelor-cheie ale conducerii cu privire la recuperabilitatea creantei privind impozitul pe profit amanat, cum ar fi previziuni care stau la baza recunoasterii activului, inclusiv sumarul datelor de expirare a pierderilor fiscale. Am evaluat conformitatea acestor previziuni cu planurile</p>



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<p>Creanta privind impozitul pe profit amanat are o importanta semnificativa pentru auditul nostru, avand in vedere importanta pozitiei bilantiere la 31 decembrie 2018 si faptul ca, pentru evaluarea recuperabilitatii soldului, procesul de estimare necesita rationamente ale conducerii, in special raportat la informatiile privind suficienta veniturilor impozabile previzionate, pe baza carora pierderile fiscale pot fi folosite, preconizandu-se ca unele dintre acestea vor fi generate peste mai multi ani in viitor.</p>	<p>de afaceri pe termen lung aplicate de conducere pentru gestionarea si monitorizarea performantei activitatii.</p> <p>Specialistii nostri interni in aspecte fiscale au fost implicati, daca a fost cazul, in procedurile noastre de audit in domeniul impozitarii si efectul oricarei evaluari relevante a fost luat in considerare in cadrul evaluarii noastre cu privire la proiectiile privind profitul impozabil.</p> <p>De asemenea, am evaluat caracterul adecvat al informatiilor prezentate de Societate cu privire la creanta privind impozitul pe profit amanat.</p>
<p><b>Completitudinea si caracterul adecvat al provizioanelor pentru litigii</b></p>	
<p>Informatiile prezentate de Rompetrol Rafinare cu privire la litigii sunt incluse in nota 26.</p>	
<p>Societatea este implicata in litigii diferite si semnificative, inclusiv in legatura cu proceduri de reglementare si/sau guvernamentale, precum si investigatii ale autoritatilor fiscale care sunt prezentate la nota 26 din situatiile financiare. Aceste aspecte sunt importante pentru auditul nostru datorita incertitudinilor inerente cu privire la rezultatul final al acestor litigii, complexitatea cazurilor si rationamentul semnificativ aplicat de conducere in estimarea rezultatului final al acestor evaluari si al expunerilor (ex. daca o datorie ar trebui recunoscuta sau o datorie contingenta ar trebui prezentata si daca o potentiala iesire de numerar poate fi estimata in mod credibil).</p> <p>Datorita importantei si complexitatii acestor litigii, rezultate nefavorabile ar putea avea un potential impact semnificativ asupra performantei financiare si pozitiei financiare a Societatii.</p>	<p>Procedurile noastre de audit au inclus, printre altele, obtinerea de confirmari de la avocatii externi ai Societatii care ofera asistenta cu privire la aceste cazuri, precum si documentatie suport de la departamentul juridic intern al Societatii, cu privire la stadiul acestor litigii. Am examinat procesele verbale ale Consiliului de Administratie si am efectuat intalniri periodice cu conducerea pentru a discuta si intelege evolutia acestor actiuni legale, ipotezele si rationamentul conducerii cu privire la aceste aspecte.</p> <p>Am evaluat daca opiniile avocatilor externi si a departamentului juridic intern sunt in concordanta cu ipotezele si estimarile folosite de conducere in ceea ce priveste recunoasterea si evaluarea provizioanelor sau evaluarea si prezentarea datoriilor contingente cu privire la aceste aspecte, pe baza evenimentelor si circumstantelor existente. Specialistii nostri interni au fost implicati, daca a fost cazul, pentru a ne asista in analiza cazurile legale si ipotezele efectuate de conducere.</p>



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	De asemenea, am evaluat caracterul adecvat al informatiilor prezentate cu privire la provizioane si datorii contingente rezultate din aceste actiuni legale.
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<b><i>Impairment testing of property, plant and equipment and investments in subsidiaries</i></b>	
<i>Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment, are included in Note 5 and Note 6 respectively.</i>	
<p><i>Property, plant and equipment (PPE) and investments in subsidiaries are significant to our audit because of the magnitude of the balance sheet position of RON 3,623 million and RON 1,629 million, respectively, as at 31 December 2018. Furthermore, the management's assessment of impairment indicators for cash generating units (CGUs) and investments involves consideration of various sources of information, including factors related to the economic environment and industry specific factors.</i></p> <p><i>The oil and gas industry went through significant changes following a decline in oil and gas prices in 2014, followed by increased price volatility. As of 31 December 2018 the management has identified impairment indicators and has performed separate impairment testing in respect of the property, plant and equipment of the Company's two CGUs (Refining, with a PPE carrying value of RON 3,083 million and Petrochemicals with a PPE carrying value of RON 372 million), resulting in no impairment loss being necessary to be recognised. Furthermore, an assessment of impairment indicators has been made for the investments in the Company's subsidiaries (Rompetrol Downstream S.R.L., Rompetrol Petrochemicals S.R.L., Rom Oil S.R.L., Rompetrol Logistics S.R.L., Rompetrol Quality Control S.R.L.).</i></p>	<p><i>Our audit procedures included, among others:</i></p> <ul style="list-style-type: none"> <li><i>• we analysed and evaluated the management's assessment of the existence of impairment indicators, for property, plant and equipment and investments in subsidiaries, respectively, considering also whether the impairment testing covered all significant cash generating units/individual assets for which impairment indicators existed at the end of the reporting period;</i></li> <li><i>• we compared the actual production/sales volumes and costs in 2018 of each CGU with the production/sales volumes and costs estimates in the budget prepared in 2018;</i></li> <li><i>• we compared the future short and long term oil and gas prices and product margins used in the Company's budgets to consensus analyst's forecasts and those adopted by other international oil companies;</i></li> <li><i>• we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance in prior years;</i></li> <li><i>• we involved our internal valuation specialists to assist us in evaluating the key assumptions and the methodologies used by the Company for the impairment testing of property, plant and equipment. Our evaluation was focused on the discount rate estimate, on the sensitivity analysis of the CGUs' recoverable amounts to changes in the significant</i></li> </ul>





<p><i>The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in Romania and neighbouring countries.</i></p>	<p><i>assumptions, as well as on the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected sale prices, production/sales volumes, product margins, working capital changes, etc.) by analysing their consistency with the general and industry-specific economic environment, relevant available market information and the business plans of the Company;</i></p> <ul style="list-style-type: none"> <li><i>we tested the mathematical accuracy of the models and its conformity with the requirements of the International Financial Reporting Standards;</i></li> </ul> <p><i>Furthermore, we assessed the adequacy of Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment testing.</i></p>
<p><b>Recoverability of deferred tax assets</b></p> <p><i>Rompetrol Rafinare's disclosures about deferred tax assets are included in Note 21.</i></p>	
<p><i>As presented in Note 21 to the financial statements, as at 31 December 2018, the Company recognized a net deferred tax asset of RON 163 million, resulting from tax losses carried forward.</i></p> <p><i>Deferred tax assets are significant to our audit because of the magnitude of the balance sheet position as at 31 December 2018 and the fact that the estimation process requires management judgement to assess the recoverability of the balance, in particular by reference to evidence for sufficient forecasted taxable income against which tax losses can be utilised, some of which are expected to arise a number of years in the future.</i></p>	<p><i>Our audit procedures focused on assessing the key management assumptions for the deferred tax asset recoverability, such as forecasts which underpin the asset recognition, including summaries of tax losses' expiry dates. We evaluated the consistency of these forecasts with the long term business plans used by management to manage and monitor the performance of the business.</i></p> <p><i>Our internal tax specialists were involved, as appropriate, in our audit procedures in relation to the taxation area and the effect of any relevant evaluations was taken into consideration in our assessment of the taxable profit projections.</i></p> <p><i>Furthermore, we assessed the adequacy of the Company's disclosures regarding deferred tax assets.</i></p>



<b>Completeness and appropriateness of provisions for litigations</b>	
Rompetroil Rafinare's disclosures about litigations are included in Note 26.	
<p><i>The Company is involved in various and significant litigations, including in relation to regulatory and / or governmental proceedings, as well as investigations by tax authorities which are presented in Note 26 to the financial statements. This area is significant to our audit due to the inherent uncertainties over the final outcome of these litigations, complexity of the cases and the significant judgement applied by the management in estimating the final outcome of such assessments and exposures (i.e. whether a liability should be recognized or a contingency should be disclosed and whether the potential outflows can be reliably estimated).</i></p> <p><i>Due to the significance and complexity of these litigations, adverse outcomes could potentially significantly impact the Company's reported financial performance and financial position.</i></p>	<p><i>Our audit procedures included, among others, obtaining legal confirmations from the Company's external lawyers advising on these matters and supporting documentation from the Company's internal legal counsel regarding the status of these litigations. We have inspected the minutes of the Board of Directors' meetings and held periodic meetings with management to discuss and understand the developments in legal proceedings and the management assumptions and judgement in respect of these matters.</i></p> <p><i>We assessed whether the opinions of external lawyers and internal legal counsel are consistent with the assumptions and estimates applied by management regarding recognition and measurement of provisions or measurement and disclosure of contingent liabilities in respect of these matters, based on the facts and circumstances available. Our internal specialists were involved, where appropriate, to assist us to analyse the legal cases and the assumptions made by management.</i></p> <p><i>We further evaluated the adequacy of disclosures regarding provisions recognised and contingencies resulting from legal proceedings.</i></p>

### **Alte informatii** **Other information**

Alte informatii includ Raportul Consiliului de Administratie, dar nu includ situatiile financiare si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.

*The other information comprises the Board of Directors' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.*



Opinia noastra de audit asupra situatiilor financiare nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.

*Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.*

In legatura cu auditul efectuat de noi asupra situatiilor financiare, responsabilitatea noastra este de a citi aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare sau cunostintele pe care le-am obtinut in urma auditului sau daca acestea par sa includa erori semnificative. Daca, in baza activitatii desfasurate, ajungem la concluzia ca exista erori semnificative cu privire la aceste alte informatii, noi trebuie sa raportam acest lucru. Nu avem nimic de raportat in acest sens. *In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.*

#### **Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare**

##### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Conducerea Societatii are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de fraudă, fie de eroare.

*Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.*

La intocmirea situatiilor financiare, conducerea este responsabila sa evalueze abilitatea Societatii de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze Societatea sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.

*In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.*



Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Societatii.

*Those charged with governance are responsible for overseeing the Company's financial reporting process.*

### **Responsabilitatile auditorului pentru auditul situatiilor financiare** ***Auditor's Responsibilities for the Audit of the Financial Statements***

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor luate in baza acestor situatii financiare.

*Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.*

Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:

*As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:*

- ▶ Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.
- ▶ *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*



- ▶ Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Societatii.
- ▶ *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*
- ▶ Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- ▶ *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- ▶ Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoilei semnificative privind capacitatea Societatii de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Societatea sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- ▶ *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.*
- ▶ Evaluam prezentarea, structura si continutul general al situatiilor financiare, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- ▶ *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatările semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.

*We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.*



De asemenea, prezentăm persoanelor responsabile cu guvernanta o declaratie cu privire la conformitatea noastra cu cerintele etice privind independenta si le comunicam toate relatiile si alte aspecte care pot fi considerate, in mod rezonabil, ca ar putea sa ne afecteze independenta si, unde este cazul, masurile de siguranta aferente.

*We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*

Dintre aspectele pe care le comunicam persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanta in cadrul auditului asupra situatiilor financiare din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit.

*From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.*

#### **Raport cu privire la alte cerinte legale si de reglementare** *Report on Other Legal and Regulatory Requirements*

#### **Raportare asupra unor informatii, altele decat situatiile financiare si raportul nostru de audit asupra acestora** *Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon*

Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii”, referitor la Raportul Consiliului de Administratie, noi am citit Raportul Consiliului de Administratie si raportam urmatoarele:

- a) in Raportul Consiliului de Administratie nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare la data de 31 decembrie 2018, atasate;
- b) Raportul Consiliului de Administratie, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, Anexa 1, punctele 15-19;
- c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare intocmite la data de 31 decembrie 2018 cu privire la Societate si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in Raportul Consiliului de Administratie.

*In addition to our reporting responsibilities according to ISAs described in section “Other information”, with respect to the Board of Directors’ Report, we have read the Board of Directors’ Report and report that:*

- a) *in the Board of Directors’ Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2018;*



- b) *the Board of Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;*
- c) *based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2018, we have not identified information included in the Board of Directors' Report that contains a material misstatement of fact.*

**Alte cerinte privind cuprinsul raportului de audit conform Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului  
Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council**

**Numirea si aprobarea auditorului  
Appointment and Approval of Auditor**

Am fost numiti auditori ai Societatii de catre Adunarea Generala a Actionarilor la data de 13 aprilie 2018 pentru a audita situatiile financiare ale exercitiului financiar incheiat la 31 decembrie 2018. Durata totala de misiune continua, inclusiv reinnoirile (prelungirea perioadei pentru care am fost numiti initial) si renumirile anterioare drept auditori a fost de 11 ani, acoperind exercitiile financiare incheiate de la 31 decembrie 2008 - pana la 31 decembrie 2018.

*We were appointed as auditors of the Company by the General Meeting of Shareholders on April 13, 2018 to audit the financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 11 years, covering the financial periods ended December 31, 2008 to December 31, 2018.*

**Consecventa cu raportul suplimentar adresat Comitetului de Audit  
Consistency with Additional Report to the Audit Committee**

Opinia noastra de audit asupra situatiilor financiare exprimata in acest raport este in concordanta cu raportul suplimentar adresat Comitetului de Audit al Societatii, pe care l-am emis in data de 14 martie 2019.

*Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on March 14, 2019.*



**Servicii non-audit**  
**Provision of Non-audit Services**

Nu am furnizat Societatii servicii non-audit interzise mentionate la articolul 5 alineatul (1) din Regulamentul (UE) nr. 537/2014 al Parlamentului European si al Consiliului si ramanem independenti fata de Societate pe durata auditului.

Nu am furnizat Societatii si entitatilor controlate de aceasta alte servicii decat cele de audit statutar si cele prezentate in raportul anual si in situatiile financiare.

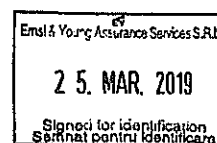
*No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.*

*In addition to statutory audit services and services disclosed in the annual report and in the consolidated financial statements, no other services which were provided by us to the Group, and its controlled undertakings.*

In numele,  
*On behalf of,*

**Ernst & Young Assurance Services SRL**  
Bd. Ion Mihalache 15-17, etaj 21, Bucuresti, Romania  
*15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania*

Inregistrat in Registrul Public electronic cu nr. 77  
*Registered in the electronic Public Register under No. 77*



Nume Auditor / Partener: Alexandru Lupea  
*Name of the Auditor/ Partner: Alexandru Lupea*  
Inregistrat in Registrul Public electronic cu nr. 273  
*Registered in the electronic Public Register under No. 273*

Bucuresti, Romania  
*Bucharest, Romania*  
25 martie 2019  
*25 March 2019*



**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**  
**as at 31 December 2018**

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

	<u>Notes</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Intangible assets	3	17,940,585	14,618,988
Goodwill	4	152,720	152,720
Property, plant and equipment	5	3,622,505,369	3,680,205,350
Investments in subsidiaries	6	1,629,020,055	1,629,020,055
Deferred tax asset	21	163,026,035	156,961,477
<b>Total non current assets</b>		<b>5,432,644,764</b>	<b>5,480,958,590</b>
Inventories, net	7	816,566,125	1,014,258,927
Receivables and prepayments, net	8	1,530,215,763	1,577,627,271
Derivative Financial Instruments	28	6,197,265	-
Cash and cash equivalents	9	19,450,444	22,863,280
<b>Total current assets</b>		<b>2,372,429,597</b>	<b>2,614,749,478</b>
<b>TOTAL ASSETS</b>		<b>7,805,074,361</b>	<b>8,095,708,068</b>
Subscribed share capital	10	4,410,920,573	4,410,920,573
Share premium	10	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	10	566,948,566	600,663,192
Other reserves	10	3,408,959,991	3,424,144,892
Accumulated losses		(6,049,107,446)	(6,507,244,042)
Current year result		(230,205,630)	418,336,728
<b>Total equity</b>		<b>2,340,153,161</b>	<b>2,579,458,450</b>
Hybrid loan - long-term portion	10	69,291,612	57,155,251
Long-term borrowings from banks	14	489,405,927	-
Provisions	15	335,464,381	327,130,219
<b>Total non-current liabilities</b>		<b>894,161,920</b>	<b>384,285,470</b>
Trade and other payables	11	3,936,412,324	3,981,167,078
Contract liabilities	12	89,334,760	-
Derivatives	28	-	515,760
Short-term borrowings from related parties	13	438,118,914	683,141,317
Short-term borrowings from banks	13	106,893,282	467,139,993
<b>Total current liabilities</b>		<b>4,570,759,280</b>	<b>5,131,964,148</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,805,074,361</b>	<b>8,095,708,068</b>

The individual financial statements were approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of Shareholders on April 24<sup>th</sup>, 2019 by:

**SADUOKHAS MERALIYEV**  
 President of the Board of Directors

**MIRCEA-STEFAN STANESCU**  
 Financial Manager

**YEDIL UTEKOV**  
 General Manager

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

**ROMPETROL RAFINARE S.A.**  
**INCOME STATEMENT**

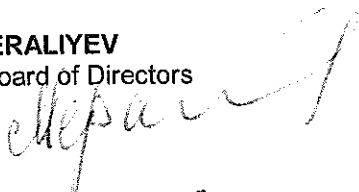
for the financial year ended 31 December 2018

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

	Notes	<u>January - December 2018</u>	<u>January - December 2017</u>
Net revenues from contracts with customers	16	14,115,915,691	11,192,755,314
Cost of sales	17	(13,609,234,205)	(10,628,344,179)
<b>Gross profit</b>		<b>506,681,486</b>	<b>564,411,135</b>
Selling, general and administrative expenses	18	(326,753,920)	(277,870,892)
Other operating expenses	19	(128,308,247)	(74,414,144)
Other operating income	19	59,470,579	11,235,130
<b>Operating profit/ (loss)</b>		<b>111,089,898</b>	<b>223,361,229</b>
Financial expenses	20	(173,755,558)	(159,732,555)
Financial revenues	20	14,718,404	46,439,668
Net foreign exchange gains / (losses)	20	(181,901,099)	308,268,386
<b>Profit/(Loss) before income tax</b>		<b>(229,848,355)</b>	<b>418,336,728</b>
Deferred tax	21	(357,275)	-
<b>Net Profit/(Loss)</b>		<b>(230,205,630)</b>	<b>418,336,728</b>
<b>Earnings per share (bani/share)</b>	24	<b>(0.52)</b>	<b>0.95</b>

The individual financial statements were approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of Shareholders on April 24<sup>th</sup>, 2019 by

**SADUOKHAS MERALIYEV**  
 President of the Board of Directors



**MIRCEA-STEFAN STANESCU**  
 Financial Manager



**YEDIL UTEKOV**  
 General Manager



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



**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**for the financial year ended 31 December 2018**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>Net Profit / (Loss)</b>	<b>(230,205,630)</b>	<b>418,336,728</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to income statement in subsequent periods (net of tax):</i>		
Gains / (losses) from derivatives	6,694,770	(538,518)
<b>Total comprehensive income to be reclassified income statement in subsequent periods (net of tax):</b>	<b>6,694,770</b>	<b>(538,518)</b>
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</i>		
Actuarial gain / (losses) relating to retirement benefits	(21,879,671)	(1,078,366)
Revaluation of buildings category in property plant and equipment	-	715,075,229
Deferred tax on the revaluation reserve recognized on equity	-	(114,412,037)
<b>Total other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</b>	<b>(21,879,671)</b>	<b>599,584,825</b>
<b>Total other comprehensive result for the year, net of tax</b>	<b>(15,184,901)</b>	<b>599,046,307</b>
<b>Total comprehensive result for the year, net of tax</b>	<b>(245,390,531)</b>	<b>1,017,383,035</b>

The individual financial statements were approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of Shareholders on April 24<sup>th</sup>, 2019 by:

**SADUOKHAS MERALIYEV**  
 President of the Board of Directors

**MIRCEA-STEFAN STANESCU**  
 Financial Manager

**YEDIL UTEKOV**  
 General Manager

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

**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF CASH FLOWS**  
**For the financial year ended 31 December 2018**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Net result before income tax</b>	<b>(229,848,355)</b>	<b>418,336,728</b>
<i>Adjustments for:</i>		
Depreciation and amortisation	321,573,922	272,563,017
Provisions for receivables and inventories (incl write-off)	61,050,302	4,901,472
(Gain)/Loss on sale or disposal of property, plant and equipment	-	19,601,302
Provision for environmental liabilities and litigations	(13,654,238)	22,709,331
Restructuring and retirement benefit provisions	(108,729)	(1,031,110)
Expenses with penalties	745,712	588,140
Interest expenses	173,170,081	159,445,993
Inreerest income	(14,718,404)	(44,795,263)
Income from dividends	-	(1,578,251)
Losses/gains from derivatives	(18,256)	223
Unrealised foreign exchange (gain)/loss from restatement and monetary items	37,562,613	(220,697,048)
<b>Cash generated from operations before working capital changes</b>	<b>335,754,648</b>	<b>630,044,535</b>
<i>Net working capital changes in:</i>		
Receivables and prepayments	56,772,465	(478,890,542)
Inventories	127,747,565	(200,731,671)
Trade and other payables and contract liabilities, including payables variation for capital expenditures	61,185,115	607,326,327
<b>Change in working capital</b>	<b>245,705,145</b>	<b>(72,295,886)</b>
Cash receipts / (payments) for derivatives, net	2,749,089	920,497
<b>Net cash provided by/(used in) operating activities</b>	<b>584,208,882</b>	<b>558,669,146</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(261,487,655)	(236,578,685)
Purchase of intangible assets	(5,707,882)	(556,070)
Dividends received	-	1,578,251
<b>Net cash used in investing activities</b>	<b>(267,195,537)</b>	<b>(235,556,504)</b>
<b>Cash flows from financing activities</b>		
Cash pooling receipts / (payments), net	(18,371,735)	(77,424,484)
Short - term loans/ (repaid to) received from banks, net	(360,246,922)	126,828,980
Long - term loans received from banks	466,052,808	-
Short - term loans (repaid to) received from shareholders and related parties	(234,690,251)	(236,099,414)
Interest and bank charges paid, net	(173,170,081)	(159,445,993)
<b>Net cash from / (used in) financing activities</b>	<b>(320,426,181)</b>	<b>(346,140,911)</b>
<b>(Decrease) in cash and cash equivalents</b>	<b>(3,412,836)</b>	<b>(23,028,269)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>22,863,280</b>	<b>45,891,549</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>19,450,444</b>	<b>22,863,280</b>

The individual financial statements were approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of Shareholders on April 24<sup>th</sup>, 2019 by

**SADUOKHAS MERALIYEV**  
 President of the Board of Directors

**MIRCEA-STEFAN STANESCU**  
 Financial Manager

**YEDIL UTEKOV**  
 General Manager

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

**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
for the financial years ended 31 December 2018 and 31 December 2017  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1 <sup>st</sup> of January 2017	4,410,920,573	232,637,107	(6,486,327,205)	-	-	3,169,670,514	1,326,900,989
Net profit/(loss) for 2017	-	-	418,336,728	-	-	-	418,336,728
Reserves - Hybrid loan	-	-	-	-	-	235,174,426	235,174,426
Revaluation reserves	-	-	-	715,075,229	-	-	715,075,229
Deferred tax on the revaluation reserve	-	-	-	-	(114,412,037)	-	(114,412,037)
Actuarial gain/losses related to retirement benefits	-	-	-	-	(1,078,366)	(1,078,366)	(1,078,366)
Gains/losses related to derivative financial instruments	-	-	-	-	(538,518)	(538,518)	(538,518)
Total other comprehensive income for 2017	-	-	418,336,728	715,075,229	(114,412,037)	(1,616,884)	599,046,308
Total comprehensive income for 2017	-	-	(20,916,836)	715,075,229	(114,412,037)	233,557,542	1,252,557,462
Transfer to legal reserves	-	-	(20,916,836)	-	-	20,916,836	-
1 <sup>st</sup> of January 2018	4,410,920,573	232,637,107	(6,088,907,313)	715,075,229	(114,412,037)	3,424,144,892	2,579,458,450
Result carried out from application of IFRS 9	-	-	(336,591)	-	-	-	(336,591)
Restated opening balance at 1 <sup>st</sup> of January 2018	4,410,920,573	232,637,107	(6,089,243,905)	715,075,229	(114,412,037)	3,424,144,892	2,579,121,859
Net profit/(loss) for 2018	-	-	(230,205,630)	-	-	-	(230,205,630)
Revaluation reserves transfer to retained earnings	-	-	40,136,459	(40,136,459)	-	-	-
Deferred tax on the revaluation reserve transferred	-	-	-	-	6,421,833	-	6,421,833
Actuarial gain/losses related to retirement benefits	-	-	-	-	-	(21,879,671)	(21,879,671)
Gains/losses related to derivative financial instruments	-	-	-	-	-	6,694,770	6,694,770
Total other comprehensive income for 2018	-	-	(190,069,171)	(40,136,459)	6,421,833	(15,184,901)	(15,184,901)
Total comprehensive income for 2018	-	-	(6,279,313,076)	674,938,770	(107,990,204)	3,408,959,991	(238,968,698)
31 <sup>st</sup> of December 2018	4,410,920,573	232,637,107	(6,279,313,076)	674,938,770	(107,990,204)	3,408,959,991	2,340,153,161

The individual financial statements were approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of Shareholders on April 24<sup>th</sup>, 2019  
by:

**SADUOKHAS MERALIEV**  
President of the Board of Directors

**MIRCEA-STEFAN STANESCU**  
Financial Manager

**YEDIL UTEKOV**  
General Manager

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

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

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## **1. GENERAL**

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

Romp petrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 31 December 2018 is 1,172, respectively 1,157 as at 31 December 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

The financial statements of the Company are prepared on a going concern basis. As at 31 December 2018, the Company reported net assets amounted to RON 2,340 million. For the year ended 31 December 2018, the Company reported a net loss of RON (230.2) million. However, the Company has recorded positive cash flows from operations of RON 584 million in 2018 and, excluding payables to related parties, the Company has a positive net current assets.

The accumulated losses incurred in the past are due to the fact that the Company has been affected by the specific of the refining activity, characterized by a significant volatility and lower refinery margins in the past years, but considering that the massive investment trend of the last period combined with an improvement in market conditions the company has achieved and is aiming for future positive financial results which will decrease the cumulated loss recorded so far.

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

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

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

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

Considering the Company's plans for 2019, and other aspects above mentioned, it is considered that the preparation of the financial statements is based on the ongoing activity principle.

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

#### **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 Company adopts the new standard IFRS 9 on the required effective date and will not restate comparative information. During 2017 and 2018, the Company has performed a detailed impact assessment of all three aspects of IFRS 9.

Overall, the Company did not book a significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company had an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Company will implement changes in classification of certain financial instruments. The Company has determined after assessment of major categories of trade receivables that the loss allowance increased by RON 0,34 million at January 01, 2018.

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

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

The Company 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 measured at fair value.

### **b) Hedge accounting**

The Company 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 Company has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Company 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 Company's financial statements.

### **c) Impairment**

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

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

IFRS 15 establishes a five-step model that applies 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). More extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company has assessed the impact of this amendment to the financial position or performance of the Company, but there is no significant effect identified until the reporting date.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company applies the new standard at its effective date of application, using the modified retrospective method. During 2017 and 2018, the Company performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

The Company is involved in refining and petrochemicals.

The Company analysed the main revenue streams which are comprised in sales of finished oil products an sales of petroleum and petrochemicals trading products, sales of other merchandise, sales of other products, sales of utilities, sales of other services under the main business segments: refinery and petrochemicals, 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 Company concluded that IFRS 15 does not have a significant impact compared with current previous revenue recognition.

Advances from customers of RON 89.3 million previously presented as trade and other payables, have been reclassified as contract liabilities as at 31 December 2018 (see Note 12).



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

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**  
The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that there is no material impact at The Company level from application of this standard.
- **IAS 40: Transfers to Investment Property (Amendments)**  
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at The Company level from application of this standard.
- **IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration**  
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no material impact at The Company level from application of this standard.
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. Management has assessed that none of these had a significant effect on the Company's financial statements:
  - **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

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

- **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.

#### Transition to IFRS 16

The Company will elect to apply the modified retrospective approach as a transitional method. Under this approach, the Company does not restate comparative information. Consequently, the date of initial application is the first day of the annual reporting period in which the Company first applies the requirements of the new standard.

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

At the date of initial application of new leases standard, the Company will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity as of 1 January 2019. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has entered into operating leases on plots, administrative buildings and other assets. Operating lease commitments are disclosed in Note 27.

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

**Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:**

<u>Assets</u>	<b>RON</b>
Property, plant and equipment (right-of-use assets)	7,979,480
<u>Liabilities</u>	
Lease liabilities	10,750,132
<b><u>Net impact on equity</u></b>	<b><u>(2,770,652)</u></b>

**The estimated impact on the statement of profit or loss (increase/(decrease)) for 2019:**

	<b>RON</b>
Depreciation expense (included in Cost of Sales)	2,515,228
Depreciation expense (included in Administrative expenses)	170,714
Operating lease expense (included in Cost of Sales)	(3,718,506)
Operating lease expense (included in Administrative expenses)	(149,615)
<b><u>Operating profit</u></b>	<b><u>1,182,180</u></b>
	-
Finance costs	451,696
	-
<b><u>Estimated impact on result for the year</u></b>	<b><u>730,485</u></b>

Due to the adoption of IFRS 16, the Company operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

• **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. Management has assessed there is no material impact from application of this standard.

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

- **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.
- **Conceptual Framework in IFRS standards**  
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**  
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at The Company level 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. These annual improvements have not yet been endorsed by the EU. None of these had a significant effect on the Company's financial statements:
  - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**  
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment require entities to use audited actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company's level from application of this standard.

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

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

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

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

The matters presented below are considered to be the most important in understanding the professional judgments that affect the preparation of these financial statements and the uncertainties that could affect the result of the operations, the financial position and the 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 Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

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

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

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

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

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

Additional details on the provisions related to the environment-related obligations are set out in Note 15.

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

### **- Deferred tax assets**

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

Further details on deferred tax assets and for those losses carried forward for which deferred tax assets has and has not been recognized are provided in Note 21.

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

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company assesses the requirement for an allowance for impairment in trade and other receivables when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company

### **- Carrying value of inventories**

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

### **- Provision for litigations**

The Company analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the litigation, the expected claim to be paid and the expected timing of the payments. Changes to these estimates could have a significant impact on the amount of the provision. Further details on the provisions relating to litigations are provided in Notes 15, 19, 26.

## **f) Financial instruments**

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

### *a. Financial assets*

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

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (r) Revenue from contracts with customers.

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

### **Subsequent measurement**

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

- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. 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. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. 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 recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

### **Derecognition**

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

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

Or

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

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

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

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### **Impairment of financial assets**

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### *b. Financial liabilities*

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

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

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

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

#### **Subsequent measurement**

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

- Financial liabilities at fair value through profit or loss
- Loans and Credits

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

### **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.

#### *c. Offsetting of financial instruments*

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

#### *d. Impairment of financial assets*

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

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a Company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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



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

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, unless a transfer hasn't been already made during utilization period of the revaluated asset.

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

Depreciation of property, plant and equipment less land and immobilization in progress is calculated using the linear method throughout their estimated lifetime:

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

Following the change in accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revalued at December 31, 2017. The remaining life utilization were estimated by the specialized valuer based on ANEVAR's Assessment Guide GEV 500 (in concordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018. Before this date (i.e January 1, 2018) the buildings category was stated at cost. The change from cost to revaluation provide a more transparent and up to date picture of the value of the Company's assets.

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

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

### **h) Intangible assets**

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

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

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

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.

### **i) Investments in subsidiaries**

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

Further details on financial assets are provided in Note 6.

### **j) Impairment of non-financial assets, including investment in subsidiaries**

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

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

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

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

### **k) Provisions**

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

Provisions are not recognized for future operating losses.

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

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

### **Environmental obligations**

Environmental costs relating to current or future income are recorded in the income statement or capitalized as appropriate. Costs relating to an existing condition caused by past operations and which do not contribute to current or future earnings are recorded in the income statement.

The company has an environmental policy in accordance with existing legislation and which respects any obligations resulting from environmental or operating permits. In order to ensure compliance with all the rules and provisions, the company has established a monitoring system in accordance with the requirements of the relevant authorities. In addition, investment plans are adjusted to reflect any future known environmental requirements. The above mentioned costs are estimated on the basis of relevant environmental studies.

Debts on environmental remediation costs are recognised when estimates of these debts are probable and associated costs can be reasonably estimated. In general, the chargeability of these provisions coincides with the commitment undertaken by a formal action plan, or, if it occurs earlier, with the disinvestment or closure of inactive locations.

### **l) Inventories**

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

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

### **m) Trade receivables**

A receivable represents the Company's right to an amount of consideration that is unconditional. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

### **o) Revenue from contracts with customers**

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The normal credit term is 30 to 90 days upon delivery.

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

In recognising revenue, the Company applies the five-step model based on the requirements of IFRS 15:

- a) identifying the contract with the customer;
- b) identifying performance obligations under the contract;
- c) determining the transaction price;
- d) allocating the transaction price to performance obligations;
- e) recognising revenue at (or during) performance of obligation.

### **(i) Variable consideration**

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of petroleum products provide customers volume rebates. The volume rebates give rise to variable consideration.

### **(ii) Volume rebates**

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

### **(iii) Significant financing component**

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be less than one year.

### **Contract liabilities**

#### ***Contract assets***

A contract asset is the right to consideration in exchange for goods or services transferred to the customer when that right is conditioned on something other than the passage of time. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

#### ***Trade receivables***

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section i) Financial instruments – initial recognition and subsequent measurement and section m) Trade receivables.

#### ***Contract liabilities***

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

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

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

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

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

### **q) 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 consists of interest and other cost that an entity incurs in connection with the borrowing of funds.

### **r) Retirement benefit costs**

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

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

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

### **s) Taxes**

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

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

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

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

### **- Deferred tax**

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

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

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

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

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

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

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

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

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

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

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

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;

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

- 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.

### **t) Dividends**

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

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

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

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

<b>Currency</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
RON/USD	4.0736	3.8915
RON/EUR	4.6639	4.6597

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

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

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

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

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

### *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) above BOS (basis operating 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 19).

### *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 products, 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 19).

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.



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

### **w) Emission Rights**

CO2 emission rights quota are allocated to the Company'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. Company received its quota allocation for 2018 and the one for 2019 has been received at the end of February 2019. The Company 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 Company will have in its accounts in CO2 EU Register at the time of annual compliance (April 2019). The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective company. Income is recognized only when excess certificates are sold on the market.

### **x) Fair value measurement**

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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

### **y) Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### **z) Contingencies**

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

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

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the financial year ended 31 December 2018  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**3. INTANGIBLE ASSETS**

	<u>Software / Licenses</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<b>Cost</b>				
<b>Opening balance as of January 1, 2017</b>	<b>45,968,850</b>	<b>150,123</b>	<b>6,441,382</b>	<b>52,560,355</b>
Additions	145,321	-	410,749	556,070
<b>Closing balance as of December 31, 2017</b>	<b>46,114,171</b>	<b>150,123</b>	<b>6,852,131</b>	<b>53,116,424</b>
Additions	145,391	-	5,292,184	5,437,575
Transfers, reclassifications and adjustments*	2,773,078	-	(2,502,771)	270,307
<b>Closing balance as of December 31, 2018</b>	<b>49,032,640</b>	<b>150,123</b>	<b>9,641,543</b>	<b>58,824,307</b>
<b>Accumulated amortization</b>				
<b>Opening balance as of January 1, 2017</b>	<b>(35,772,954)</b>	<b>(62,551)</b>	<b>-</b>	<b>(35,835,505)</b>
Charge for the year	(2,611,891)	(50,041)	-	(2,661,932)
<b>Closing balance as of December 31, 2017</b>	<b>(38,384,844)</b>	<b>(112,592)</b>	<b>-</b>	<b>(38,497,436)</b>
Charge for the year	(2,348,755)	(37,531)	-	(2,386,286)
<b>Closing balance as of December 31, 2018</b>	<b>(40,733,599)</b>	<b>(150,123)</b>	<b>-</b>	<b>(40,883,722)</b>
<b>Net book value</b>				
<b>As of December 31, 2017</b>	<b>7,729,326</b>	<b>37,531</b>	<b>6,852,131</b>	<b>14,618,988</b>
<b>As of December 31, 2018</b>	<b>8,299,041</b>	<b>-</b>	<b>9,641,543</b>	<b>17,940,585</b>

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

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

**4. GOODWILL**

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

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the financial year ended 31 December 2018**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**5. PROPERTY, PLANT AND EQUIPMENT**

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Furniture and others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost or valuation</i>						
<b>As of January 1, 2017</b>	<b>192,480,007</b>	<b>1,867,001,642</b>	<b>3,348,858,449</b>	<b>12,247,315</b>	<b>161,917,727</b>	<b>5,582,505,139</b>
Acquisitions	-	7,951	2,776,519	47,169	233,753,224	236,584,863
Revaluation	-	695,473,926	-	-	-	695,473,926
Transfers from CIP	-	43,931,192	162,717,589	4,095,408	(210,750,367)	(6,178)
Transfers and reclassifications*	-	(981,048,534)	-	-	-	(981,048,534)
<b>As of December 31, 2017</b>	<b>192,480,007</b>	<b>1,625,366,178</b>	<b>3,514,352,557</b>	<b>16,389,891</b>	<b>184,920,584</b>	<b>5,533,509,217</b>
Acquisitions	-	119,647	593,006	81,712	260,966,825	261,761,190
Transfers from CIP	-	48,287,281	217,494,928	461,893	(266,517,638)	(273,535)
Disposals	-	-	11,496	-	-	11,496
Transfers and reclassifications*	-	31,862,410	(31,957,110)	94,700	-	-
<b>As of December 31, 2018</b>	<b>192,480,007</b>	<b>1,705,635,515</b>	<b>3,700,494,879</b>	<b>17,028,196</b>	<b>179,369,771</b>	<b>5,795,008,368</b>
<i>Accumulated depreciation &amp; Impairment</i>						
<b>As of January 1, 2017</b>	<b>(24,060,893)</b>	<b>(927,515,686)</b>	<b>(1,603,558,648)</b>	<b>(6,144,605)</b>	<b>(3,171,485)</b>	<b>(2,564,451,316)</b>
Charge for the year	(1,839,934)	(53,574,511)	(213,631,668)	(854,973)	-	(269,901,085)
Transfers and reclassifications*	-	981,048,534	-	-	-	981,048,534
<b>As of December 31, 2017</b>	<b>(25,900,827)</b>	<b>(41,662)</b>	<b>(1,817,190,315)</b>	<b>(6,999,577)</b>	<b>(3,171,485)</b>	<b>(1,853,303,867)</b>
Charge for the year	(1,656,751)	(97,505,201)	(219,069,182)	(956,502)	-	(319,187,635)
Accumulated depreciation of disposals	-	-	(11,496)	-	-	(11,496)
<b>As of December 31, 2018</b>	<b>(27,557,579)</b>	<b>(97,548,917)</b>	<b>(2,036,268,939)</b>	<b>(7,956,079)</b>	<b>(3,171,485)</b>	<b>(2,172,502,999)</b>
<b>Net book value as of December 31, 2017</b>	<b>166,579,179</b>	<b>1,625,324,515</b>	<b>1,697,162,242</b>	<b>9,390,314</b>	<b>181,749,099</b>	<b>3,680,205,350</b>
<b>Net book value as of December 31, 2018</b>	<b>164,922,428</b>	<b>1,608,086,598</b>	<b>1,664,225,939</b>	<b>9,072,117</b>	<b>176,198,286</b>	<b>3,622,505,369</b>

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

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

**- Impairment**

No additional depreciation was recorded in 2018 and 2017. Impairment test has been performed by the Company related to the value of non-current assets as of 31 December 2018 for cash generating units ("CGU") detailed below in the Impairment test.

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

### **- Construction in progress**

In 2018 the significant contribution in the total acquisitions of assets in progress is represented by the following projects: Refinery and Petrochemicals annual overhaul (approximately RON 74.2 million), State Inspection for Control of Boilers, Pressure Vessels and Hoisting (ISCIR) projects of the two refineries (approximately RON 41 million), Replacement of Convective System for CO Boiler project (approximately RON 14.9 million), Tanks rehabilitation projects (approximately RON 15.5 million), the catalyst replacement project at the plant HPM (about RON 10 million), Replacement of Low NOx burners at Reformer Catalyst unit (about RON 9.5 million), project replacement of the old 6 KV switches and the relays SRA2 (approximately RON 5.2 million), project "HDPE Unit restart" (approx. RON 5.3 million).

At the end of 2018 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to RON 21.7 million, State Inspection for Control of Boilers, Pressure Vessels and Hoisting (ISCIR) authorisations amounting to around RON 23.9 million), Replacement of Convective System for CO Boiler project amounting to around RON 14.9 million, Replacement of Low NOx burners at Reformer Catalyst unit (about RON 9.5 million), replacement of the old 6 KV switches and the relays SRA2 (approximately RON 5.4 million) and Refinery specific optimisation programs in amount of RON 104 million.

At the end of October 2018 has been started the planned shutdown activity within the Petromidia refinery (refining and petrochemical units) and Vega refinery, which was finalized by the end of November 2018. The purpose of this activity is to carry out the necessary works in order to maintain all the installations in optimal operating parameters in order to maximize the flow of the installations and the quality of the obtained products and to create the conditions for the implementation of future projects, to expand and increase the production volume, to ensure the reliability of the equipment during the operation, and to align the equipments and pipelines with the legislative requirements in force.

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.

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

In 2017 the main projects remaining in construction in progress refers to the Tank rehabilitation amounting to RON 30.3 million, ISCIR authorizations amounting to RON 31.7 million, HDPE Unit restart amounting to RON 16.5 million and Refinery specific optimization programs amounting to RON 53.3 million in respect of Rompetrol Rafinare SA.

### **- Disposal**

No asset disposals were recorded in 2018 and 2017.

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

The Company finances its activities including through loans and the cost of debt for the acquisition of assets is capitalized in the cost of the asset, when specific loans have been obtained (investment). In 2018 and 2017 the interest was not capitalized.

The 2018 capital projects were financed from Company's operating cash flow, therefore no borrowing cost was capitalized during 2018.

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

**- Revaluation of buildings category**

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

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

**Reconciliation of carrying amount**

	<b>Buildings million RON</b>
<b><i>Carrying amount as at December 31, 2016*</i></b>	<b>939</b>
<i>Revaluation gain recognized due to change in accounting policy to revaluation model</i>	715
<i>Revaluation loss recognized</i>	(20)
<i>Depreciation for the year</i>	(54)
<i>Additions/Disposals/Transfers and reclassifications</i>	44
<b><i>Carrying amount and fair value as at 31 December 2017</i></b>	<b>1,625</b>
<i>Depreciation for the year</i>	(97)
<i>Additions/Disposals/Transfers and reclassifications</i>	80
<b><i>Carrying amount and fair value as at 31 December 2018</i></b>	<b>1,608</b>

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

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

	<b>2017 million RON</b>	<b>2018 million RON</b>
Cost	1,911	1,991
Accumulated depreciation and impairment	(981)	(1,039)
<b>Net carrying amount</b>	<b>930</b>	<b>952</b>

**- Fixed assets pledged**

The company pledged assets with a net carrying amount of RON 1,091,987,723 (2017: RON 1,135,075,542), as follows:

- guarantees in favor of banks: RON 835,638,076 (2017: RON 864,851,354);
- guarantees in favor of ANAF: RON 256,349,647 (2017: RON 270,224,188).

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

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

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

According with the Memorandum of Understanding signed with the Romanian State and approved by Government Decision no. 35/2014, ANAF should remove and revoke the distraint established on 10 September 2010. To date ANAF has not applied the requirements of the MoU and has not lifted the asset freeze.

On 9 May 2016, Rompetrol Rafinare SA was notified that it was included as a civil responsible party in a file under investigation by DIICOT (See Note 26). Also, on the same date, the movable and immovable assets of Rompetrol Rafinare SA, as well as all the investments in subsidiaries, were subject to an asset freeze.

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

### **IMPAIRMENT TEST**

Impairment tests have been performed by the Company for the carrying value of property plant and equipment as of 31 December 2018 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2018 the net book value of property plant and equipment for the cash generating units is the following Refining 3,083 million RON, Petrochemicals 372 million RON.

#### *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 9.7% (2017: 9.0%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.8% (2017: 7.5%).

#### *Petrochemicals*

Petrochemicals CGU includes the petrochemical business of the Company, 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 9.7% (2017:9.0%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.8% (2017: 7.5%).

Petrochemicals segment within Rompetrol Rafinare remains of strategic value, as polymers are still the highest valued products within an integrated Refinery-Petrochemicals perspective, within a context of global demand expected to further grow, as per reputable Oil&Gas independent research agencies publications. Regional Balkan polymer market already at a level of 3:1 demand to offer ratio, therefore a market importing 2/3 of the consumption required in order to suffice the demand, while expected to further increase in the context a rising middle class from the emerging economies in the Eastern Europe triggering the increasing need for consumer products (polypropylene and polyethylene based products).

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

### *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:

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

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Refining	3.3%	4.5%	6.1%	4.4%	3.5%
Petrochemicals	(5.6%)	(3.3%)	(1.7%)	1.0%	3.2%

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

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

### **Sensitivity to changes in assumptions**

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

#### *Rompetrol Refinery*

The break-even point for the current model is achieved under a decrease of 47.7% of Operating profit, reaching the following Operating profit margins:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating profit margin	1.7%	2.4%	3.2%	2.3%	1.8%

#### *Petrochemicals*

The break-even point for the current model is achieved under a decrease of 59% of Operating profit, reaching the following Operating profit margins:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating profit margin	-2.3%	-1.4%	-0.7%	0.4%	1.3%

\*Operating profit margins were computed based on net revenue.



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**6. FINANCIAL ASSETS**

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

**Investments in subsidiaries**

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

	<b>Ownership at December 31, 2018</b>	<b>Ownership at December 31, 2017</b>	<b>Balance as at December 31, 2018</b>	<b>Balance as at December 31, 2017</b>
<b>Range of activity</b>				
Romp petrol Downstream S.R.L. Fuel sales	99,99%	99,99%	1,090,406,067	1,090,406,067
Romp petrol Petrochemicals S.R.L. Petrochemicals	100,00%	100,00%	311,698,295	311,698,295
Rom Oil S.A. Rental services	99,99%	99,99%	191,216,660	191,216,660
Romp petrol Logistics S.R.L. Logistics operations	66,19%	66,19%	24,349,123	24,349,123
Romp petrol Quality Control S.R.L. Quality Control				
Services for oil products	70.91%	70.91%	11,349,910	11,349,910
<b>Total of equity investments</b>			<b>1,629,020,055</b>	<b>1,629,020,055</b>

*\*Note: all subsidiaries are Romanian companies*

Financial assets represent long-term strategic investment and are recorded at cost less any allowance for impairment for diminished value. The main indicators taken into account to identify impairment are current and anticipated results of the investees in the context of the industry in which they operates.

At December 31, 2018, the Company's management conducted a review of the indicators of impairment of subsidiaries. Following this analysis, no impairment indicators were identified for any of the subsidiaries.

**7. INVENTORIES, NET**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Crude oil and other feedstock materials	403,523,468	560,632,354
Finished products	327,608,425	294,460,794
Work in progress	121,361,245	127,069,512
Spare parts	51,558,131	52,960,693
Other consumables	25,260,746	21,541,544
Merchandises	825,262	1,254,210
Other inventories	3,577,292	3,543,028
Inventories reserve	(117,148,444)	(47,203,208)
<b>Total</b>	<b>816,566,125</b>	<b>1,014,258,927</b>

The inventories of finished products comprise mainly petroleum products.

As at December 31, 2018 the Company has under pledge crude oil stocks and petroleum products amounting RON 433,209,213, respectively RON 543,675,803 at December 31, 2017.

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

The movement of the provision for inventories in 2018 and 2017 is presented below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Reserve at the beginning of the year</b>	<u>(47,203,208)</u>	<u>(44,103,284)</u>
Accrued provision	(91,102,705)	(29,951,519)
Write off	4,249	-
Reversal provision inventories reserve	21,153,220	26,851,595
<b>Reserve at the end of the period</b>	<u>(117,148,444)</u>	<u>(47,203,208)</u>

The provisions for inventories represent provisions related to crude oil and other feedstock materials, finished products and spare parts calculated as the difference between the cost value and the net realizable value. The increase in 2018 is due to the sudden decrease of oil prices at the end of 2018, which resulted in a reduction of the NRV of inventories held by the Company, that led to recognizing additional provision in 2018.

**8. RECEIVABLES AND PREPAYMENTS, NET**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Trade receivables	1,331,880,533	1,526,173,286
Advances to suppliers for raw material and services	16,787,625	11,392,740
Sundry debtors	43,538,082	26,811,309
VAT to be recovered	8,607,831	2,990,566
Other receivables	184,441,552	72,879,061
Provisions for expected credit losses	<u>(55,039,860)</u>	<u>(62,619,691)</u>
<b>Total</b>	<u>1,530,215,763</u>	<u>1,577,627,271</u>

The balances with related parties are presented in Note 23. The movement of provision is presented in Note 19.

As at 31 December 2018, the sundry debtors account included the following main items: RON 28.57 million for debts and related penalties paid to ANAF in reference to the fiscal inspection covering 2011-2015 period (see note 26); RON 13.7 million for local taxes paid to the Navodari City Hall (in respect of a dispute related to revaluation of buildings; see note 26).

In other receivables it is included VAT receivable from members of the Fiscal Group (RON 57.43 million); receivables from the State Budget representing excise, energy products paid in advance by customers in States Budget excise revenue account (RON 78.36 million).

Trade receivables totaling RON 180.5 million at 31 December 2018, respectively totaling RON 219 million at 31 December 2017 are pledged in order to obtain credit facilities (see Note 14).

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

The movement in provision for expected credit losses for trade and other receivables is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Balance at the beginning of the year</b>	<b>(62,619,691)</b>	<b>(62,290,869)</b>
Charge for the year	(14,672,173)	(2,081,781)
Utilized	378,727	276,984
Unused amounts reversed	23,188,380	3,250
IFRS 9 impact (RE adjustment)	(336,590)	-
Exchange rate differences	(978,513)	1,472,726
<b>Balance at the end of the period</b>	<b>(55,039,860)</b>	<b>(62,619,691)</b>

As at 31 December, the ageing analysis of trade receivables is as follows:

		<u>Trade receivables</u>						
		<u>Days past due</u>						
2018	Total	Current	1-30 zile	30-60 zile	60-90 zile	90-120 zile	>120 zile	
Expected credit loss rate	2.60%	0.02%	0.38%	0.05%	8.76%	5.24%	9.37%	
Estimated total gross carrying amount at default	1,331,877,760	863,791,138	87,435,521	16,368,563	94,705	169,071	364,018,763	
Expected credit loss	34,623,679	170,794	336,590	7,542	8,300	8,866	34,091,586	
		<u>Past due but not impaired</u>						
	Total	Neither past due not impaired	1-30 days	30-60 days	60-90 days	90-120 days	>120 days	Adjustment IFRS 9
31-Dec-18	1,297,254,081	863,791,138	87,435,521	16,361,021	86,405	160,204	329,927,176	-507,384
31-Dec-17	1,470,315,538	1,015,680,845	151,923,166	2,521,925	-134,983	1,289,888	299,034,695	-

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

At 31 December 2018, the trade receivables at the initial value of RON 34.62 million (2017 RON 55.86 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	<u>Collectively impaired</u>
<b>At January 1, 2017</b>	<b>(56,755,153)</b>
Value adjustments for impairment of receivables	(855,554)
Reversed provisions	280,233
Exchange rate difference	1,472,726
<b>At December 31, 2017</b>	<b>(55,857,748)</b>
Value adjustments for impairment of receivables	(1,354,525)
Reversed provisions	23,567,107
Exchange rate difference	(978,513)
<b>At December 31, 2018</b>	<b>(34,623,679)</b>

## 9. CASH AND CASH EQUIVALENTS

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash at bank	14,501,037	22,394,325
Cash on hand	1,727	7,605
Cash in transit	4,190,429	3,940
Other cash equivalents	<u>757,251</u>	<u>457,410</u>
<b>Total</b>	<b><u>19,450,444</u></b>	<b><u>22,863,280</u></b>

Other cash equivalents represent in the greatest part checks to be cashed.

## 10. EQUITY

### 10.1 SHARE CAPITAL

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

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

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

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

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

The proceeds of the capital increase were used to partially redeem the bonds held by the Romanian state.

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

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

### 10.2 SHARE PREMIUM

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

### **10.3 REVALUATION RESERVES**

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

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

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

At 31 December 2018 the Revaluation reserves balance (presented in net of RON 567 million) is affected by the transfer to retained earnings of the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the assets included in the building category. In compliance with OMFP 2844/2016 and with the accounting policies adopted by the Company as of 31 December 2017 the revaluation surplus included in the revaluation reserves is capitalized by transferring it to retained earnings as the use of the asset or upon disposal of the asset, unless a transfer hasn't been already made during utilization period of the revaluated asset. Therefore at 31 December 2018 the revaluation surplus transferred to retained earnings is in amount of RON 40,14 million. Also the Company recognized a positive effect on the deferred tax asset in amount of RON 6.42 million related to the temporary differences resulting from the revaluation surplus, due to revaluation surplus transferred to retained earnings in 2018.

### **10.4 OTHER RESERVES**

#### ***Hybrid Loan***

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

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

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

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

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**10.4 OTHER RESERVES (continued)**

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

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

Also, in 2018 and 2017 it was carried on and recognized a liability for the potential interest on the hybrid loan in total amount of RON 69.3 million, based on the projected profitability of the business for the period remaining until reimbursement of the hybrid loan.

During 2018 unrealized derivative gains and gains/losses related to retirement benefits were booked in Other Reserves as follows:

	<u>2018</u>	<u>2017</u>
Actuarial gain/(losses) related to retirement benefits	(21,879,671)	(1,078,366)
Gains/(losses) related to derivative financial instruments	<u>6,694,770</u>	<u>(538,518)</u>
<b>Total</b>	<b><u>(15,184,901)</u></b>	<b><u>(1,616,884)</u></b>

**11. COMMERCIAL LIABILITIES AND OTHER LIABILITIES**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Trade payables	3,268,597,399	3,281,800,731
Advances from customers	-	77,495,051
VAT payable	124,899,155	130,526,638
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,180)	(1,180)
Employees and social obligations	11,045,899	14,343,553
Other liabilities	504,310,419	449,441,653
<b>Total</b>	<b><u>3,936,412,324</u></b>	<b><u>3,981,167,078</u></b>

At December 31<sup>st</sup>, 2018 the line "Advances from customers" does not present balance, due to reclass of this balance sheet element into "Contract liabilities" (see note 12) as per IFRS 15.

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

The cash pooling debt amounts to RON 392,80 million (2017: RON 410.71 million) and is recognised in "Other liabilities".

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**12. CONTRACT LIABILITIES**

	<u>December 31, 2018</u>	<u>December 31, 2018</u>
Short-term advances from other customers	89,334,760	-
<b>Total short-term advances</b>	<u>89,334,760</u>	<u>-</u>

Contract liability relates to payments received in advance of performance under the contract. Contract liabilities are recognised as revenue as (or when) the Company performs under the contract.

**13. SHORT-TERM LOANS**

**Short-term loan from related parties:**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>KMG International N.V.</b>	243,663,781	494,663,734
Short-term credit facility for working capital needs, amounting to a maximum of USD 250 million, USD 50 million due on December 31, 2019 and USD 200 million available upon request; guarantees: assignment of receivables, pledge on holdings in Rompetrol Logistics, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil; pledge on bank accounts. The undrawn amount as at December 31, 2018 is in amount of USD 190.18 million.		
<b>Rompetrol Well Services SA</b>	13,000,000	13,000,000
Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - January 10, 2019. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	7,000,000	7,000,000
Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - January 14, 2019. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	3,100,000	3,100,000
Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - January 3, 2019. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	11,200,000	11,200,000
Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - February 28, 2019. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Midia Marine Terminal SRL</b>	27,211,100	27,211,100
Short-term facility for working capital needs in amount of RON 27.211 million (through conversion of the loan in value of USD 7 million at NBR exchange rate communicated at July 31, 2017), maturity date December 31, 2019. The facility has been fully used.		
<b>Rompetrol Financial Group SRL</b>	115,000,000	115,000,000
Short-term facility for working capital needs in amount of USD 29.215 million, maturity date December 31, 2019. The facility has been fully used.		
Interest due	17,944,033	11,966,483
	<u>438,118,914</u>	<u>683,141,317</u>

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**13. SHORT-TERM LOANS (continued)**

**Short-term loan from banks**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Banca Transilvania</b>	44.647.693	-
Revolving credit facility on short term of up to EUR 18 million, for working capital, maturity October 10, 2019, interest rate Euribor/Libor 3M+3.3% or Robor 3M +3.3%; security on the present and future creditor balance account		
<b>Bancpost</b>	57.541.024	31.530.791
Romp petrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2019; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m <sup>2</sup> ; assignment of rights from insurance compensation.		
<b>Bancpost</b>	10	-
Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 31 July 2019; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS = EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.		
Interest due	71.676	271.981
	<u>102.260.403</u>	<u>31.802.772</u>
Syndicated loan – through Unicredit Bank as payer agent	-	435,337,221
Syndicated loan – auxiliary component representing overdraft loan granted by Unicredit Bank	4,628,614	-
Syndicated loan – auxiliary component representing overdraft loan granted by BCR	4,265	-
<b>TOTAL</b>	<u>106,893,282</u>	<u>467,139,993</u>

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

Thus, at 31 December 2018, the short-term part of the Syndicated loan no longer registers balance, due to the reclassification of amounts used into long-term credit, considering that at December 31, 2018 the term calculated to maturity (23 April 2021) is more than 1 Year.

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



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**14. LONG-TERM LOANS**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Syndicated loan – through Unicredit Bank as payer agent</b>		
Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Romp petrol Rafinare, Rom petrol Downstream SRL, KazMunayGas Trading AG, KMG Rom petrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for 1 year period. For the main component the maturity is on April 23, 2021 (with two options to be extended over a period of another 1 year, these extension options can be exercised in 2019 and 2020, so the period is 3 years + 1 year + 1 year there is the possibility that this facility is available until 2023). The following mortgages are set up to secure the loan: a) the credit balances of all current accounts present and future; b) the rights of insurance compensation; c) inventories (Propylene, Ethylene, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% of the debts assigned to notify the clients.	<b>489,405,927</b>	-

At December 31<sup>st</sup>, 2018 the Syndicated loan is secured from Rom petrol Rafinare side with pledges on inventories of RON 183.8 million (2017: RON 115 million) and trade receivables of RON 180.5 million (2017: RON 219 million). At the time of extension of the credit facility the Company have paid in advance a total fee of RON 5.14 million. Starting with May 2018, part of the fee is being charged monthly to expenses as bank commission, until the maturity of the loan agreement.

The movement of loans in 2018 is presented below:

	<u>At January 01, 2018</u>	<u>Reclass from short-term to long-term</u>	<u>Repayments</u>	<u>Withdrawals</u>	<u>Exchange rate impact</u>	<u>At December 31, 2018</u>
Long-term borrowings from banks	-	435,337,221	(65,638,917)	93,119,018	26,588,605	489,405,927
Short-term borrowings from banks	466,868,013	(435,337,221)	(1,472,811,589)	1,545,008,055	3,094,348	106,821,606
Short-term borrowings from shareholders and related parties	671,174,834	-	(234,690,251)	-	(16,309,702)	420,174,881
<b>Total</b>	<b>1,138,042,847</b>	<b>-</b>	<b>(1,773,140,756)</b>	<b>1,638,127,073</b>	<b>13,373,251</b>	<b>1,016,402,415</b>
	<u>At January 01, 2018</u>	<u>Reclass</u>	<u>Payments</u>	<u>Accrued</u>	<u>Exchange rate impact</u>	<u>At December 31, 2018</u>
Interest short-term borrowings from banks	271,981	-	(30,140,494)	29,940,400	(211)	71,676
Interest short-term borrowings from shareholders and related parties	11,966,483	-	(23,511,933)	29,197,698	291,785	17,944,033
<b>Total</b>	<b>12,238,464</b>	<b>-</b>	<b>(53,652,427)</b>	<b>59,138,098</b>	<b>291,574</b>	<b>18,015,709</b>

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**15. PROVISIONS**

The movement of the provisions is presented below:

	<u>As at</u> <u>January 1,</u> <u>2018</u>	<u>Other</u> <u>comprehensive</u> <u>income</u>	<u>Arising</u> <u>during the</u> <u>year</u>	<u>Reclassification</u> <u>between</u> <u>balance sheet</u> <u>items</u>	<u>As at</u> <u>December 31,</u> <u>2018</u>
Retirement benefit provision	32,064,985	21,879,671	108,729	-	54,053,385
Fiscal provision	13,654,238	-	-	(13,654,238)	-
Environmental provision	281,410,996	-	-	-	281,410,996
<b>Total</b>	<b>327,130,219</b>	<b>21,879,671</b>	<b>108,729</b>	<b>(13,654,238)</b>	<b>335,464,381</b>

Environmental provision

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

At the end of 2018, a re-assessment of the provision was performed by considering the update variable indicators (e.g. exchange rate and discount rate). The results of the reassessment sustained the value of the provision in balance and no impact should be recognized in 2018. The balance of the provision for Vega lagoons remediation projects is RON 281.4 million (using a discount factor of 4.6%). At the date of these financial statements, Rompetrol Rafinare SA has contracted technical services (laboratory tests based on which the optimal and sustainable remediation technology should be established and agreed with the environmental authorities, in order to review the environmental agreement. On the basis of the optimal and sustainable technology established and agreed with the environmental authorities, the final cost of the remediation project and possibly the execution period will be revaluated.

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

Fiscal provision

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

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**15. PROVISIONS (continued)**

*Retirement obligations provision*

Under the collective labor agreement in force, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with the entity 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 entity; and actuarial assumptions regarding mortality, staff turnover etc. For the computation an actuarial valuation is involved making various assumptions that may differ from actual developments in the future. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 4.73% in 2018 (2017: 4.52%), with an expected rate of long-term salary increase of 2.99% in 2018 (3.46% in 2017).

Amounts recognized in the income statement in respect of this obligation are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest on obligation	585,477	286,562
Service cost	1,592,442	1,409,224
Curtailements due to retirement	(2,069,190)	(664,676)
<b>Total</b>	<b>108,729</b>	<b>1,031,110</b>

Amounts recognized in the statement of financial position arising from the retirement benefit obligation are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Opening balance</b>	<b>32,064,985</b>	<b>29,955,509</b>
Interest on obligation	585,477	286,562
Service cost	1,592,442	1,409,224
Curtailement due to retirement	(2,069,190)	(664,676)
Changes in assumptions (tax rate, salary increase, staff turnover)	21,879,671	1,078,366
<b>Closing balance</b>	<b>54,053,385</b>	<b>32,064,985</b>

It is estimated that there are no significant liabilities relating to the provisions that will arise in the next 12 months to 31 December 2019.

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**16. REVENUES**

	January - December 2018		TOTAL 2018	January - December 2017		TOTAL 2017
	Refining	Petrochemicals		Refining	Petrochemicals	
Gross revenues from the sale of finished oil products	17,486,063,678	779,184,729	18,265,248,407	13,962,672,306	764,908,414	14,727,580,720
Revenues from petroleum products trading	-	-	-	11,120,556	-	11,120,556
Revenues from petrochemicals trading	-	15,960,004	15,960,004	-	6,355,935	6,355,935
Revenues from other merchandise sales	2,231,552	-	2,231,552	13,821,038	-	13,821,038
Revenues from utilities sold	8,313,460	-	8,313,460	7,915,850	-	7,915,850
Revenues from the sale other products	746,271	-	746,271	979,801	-	979,801
Revenues from other services	12,958,673	-	12,958,673	13,892,564	-	13,892,564
<b>Gross Revenues</b>	<b>17,510,313,635</b>	<b>795,144,733</b>	<b>18,305,458,367</b>	<b>14,010,402,115</b>	<b>771,264,349</b>	<b>14,781,666,464</b>
Less sales taxes	(4,189,542,676)	-	(4,189,542,676)	(3,588,911,150)	-	(3,588,911,150)
<b>Total</b>	<b><u>13,320,770,959</u></b>	<b><u>795,144,733</u></b>	<b><u>14,115,915,691</u></b>	<b><u>10,421,490,965</u></b>	<b><u>771,264,349</u></b>	<b><u>11,192,755,314</u></b>

Total Revenues increased mainly due to the volatility of oil and gas market environment and due to 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.

**17. COST OF SALES**

	<u>January - December 2018</u>	<u>January - December 2017</u>
Crude oil and other raw materials	12,638,548,476	9,783,827,276
Consumables and other materials	61,769,819	62,390,005
Utilities	397,646,059	338,134,378
Staff costs	94,168,349	86,384,539
Transportation	104,448	99,572
Maintenance	98,689,420	88,153,363
Insurance	6,006,108	6,006,896
Environmental expenses	4,351,234	4,045,475
Other	49,003,958	46,296,909
<b>Cash production cost</b>	<b>13,350,287,871</b>	<b>10,415,338,413</b>
Depreciation and amortization	273,065,350	231,655,406
<b>Production costs</b>	<b>13,623,353,221</b>	<b>10,646,993,819</b>
Less: Change in inventories	(32,261,699)	(87,431,116)
Less: Own production of property, plant & equipment	(12,621,819)	(7,587,798)
Add:		
Cost of petroleum products trading	-	11,090,945
Cost of petrochemicals trading	16,066,884	6,675,732
Cost of other merchandise sales	1,541,522	14,204,355
Cost of utilities sold	6,248,863	6,131,283
Realised losses on derivatives	6,907,233	38,266,959
<b>Total</b>	<b><u>13,609,234,205</u></b>	<b><u>10,628,344,179</u></b>

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**17. COST OF SALES (continued)**

Total Cost of goods sold increased mainly due to the increase of prices for crude oil and also due to increased quantity of crude oil processed and of petroleum products sold.

In 2018, in other expenses are included costs for: inspections and quality control in amount of RON 18.5 million (2017: RON 18 million), IT and communications in amount of RON 9.7 million (2017: RON 8.4 million), local taxes in amount of RON 2.9 million (2017: RON 2.2 million), technical consulting in amount of RON 0.8 million (2017: RON 3.3 million), security, fire protection and other services in amount of RON 16.6 million (2017: RON 14.4 million).

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

	<u>January - December</u> <u>2018</u>	<u>January - December</u> <u>2017</u>
Staff costs	29,769,737	27,070,366
Utilities	8,570,093	7,920,640
Transportation	42,281,635	39,763,131
Professional and consulting fees	105,700,483	81,243,153
Consumables	1,359,995	1,891,058
Marketing	252,786	551,726
Taxes	3,781,765	3,326,557
Communications	72,345	69,903
Insurance	1,081,664	2,179,435
IT related expenditures	6,652,561	5,851,765
Environmental expenses	16,082,066	10,079,109
Maintenance	14,303,059	13,798,337
Fees and penalties	20,962,616	15,734,399
Other expenses	27,374,545	27,483,702
<b>Costs before depreciation</b>	<b>278,245,349</b>	<b>236,963,281</b>
Depreciation and amortisation	48,508,571	40,907,611
<b>Total</b>	<b><u>326,753,920</u></b>	<b><u>277,870,892</u></b>

In the "Consultancy" category, the vast majority of expenditures are represented by spending on consultancy and management services from the group's specialized management companies, KMG Rompetrol SRL (KMGR) and KMG International NV (KMGI). Variations of 2018 vs. 2017 are derived from adjustments made by KMGR for services provided in period 2011-2017, as result of the Tax Decision issued by tax authority DGAMC-ANAF, following the background fiscal control of the 2011-2015 period carried out at KMGR. In order to comply with ANAF's transfer pricing methodology, KMGR issued also price correction invoices for the years 2016-2017 based on the tax decision to adjust its income / expense in relation with affiliated persons.

Also the auditor's fees were recognised in "Professional and consulting fees". The auditors' fees related to the audit of the stand-alone and consolidated financial statements as of 31.12.2018 are EUR 114,000 (in 2017: EUR 148,000).

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

	<b>January - December 2018</b>	<b>January - December 2017</b>
Loss from receivables (including provisions and write-off), net	13,934,650	1,801,548
Loss from provision for inventories and write-off, net	69,945,237	3,099,923
(Gain) / Loss from other provisions	(13,654,238)	22,709,331
Loss from revaluation of non-current assets	0	19,601,302
Other expenses / (income), net	(1,387,980)	15,966,910
<b>Total</b>	<b>68,837,668</b>	<b>63,179,014</b>

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

In 2017 "Other expense / (income), net" includes reclassification of revenues from penalties calculated based on outstanding receivables at 31 December 2016 for KazMunayGas Trading, AG amounting to RON 17.1 million. In 2016 the revenues were recorded as an accrual in other operational revenues and further reversed in 2017, when it were recognized into financial revenues based on its financial nature, for which the company issued interest invoice.

The movement of the provision for inventories in 2018 includes an additional provision set up as the difference between cost and the net realizable value for crude oil and petroleum products as at 31 December 2018, as the products were consumed or sold.

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

	<u>January - December</u> <u>2018</u>	<u>January - December</u> <u>2017</u>
<b>Finance cost</b>		
Interest expense	26,870,341	15,681,006
Interest expense shareholders and related parties	66,040,043	75,918,355
Other financial expense	80,845,174	68,133,194
	<u>173,755,558</u>	<u>159,732,555</u>
<b>Finance income</b>		
Interest income	(14,110,735)	(44,795,263)
Other financial income	(607,669)	(1,644,405)
	<u>(14,718,404)</u>	<u>(46,439,668)</u>
<b>Finance income/(cost) net</b>	<u>159,037,154</u>	<u>113,292,886</u>
Unrealized net foreign exchange losses/(gains)	37,544,357	(220,696,825)
Realized net foreign exchange losses/(gains)	144,356,742	(87,571,561)
<b>Foreign exchange (gain)/loss, net</b>	<u>181,901,099</u>	<u>(308,268,386)</u>
<b>Total</b>	<u>340,938,253</u>	<u>(194,975,500)</u>

The major difference between 2018 and 2017 in the "Interest income" line is due to recognizing in 2017 of interest penalties calculated to some overdue trade receivables from KazMunayGas Trading AG, for which the company issued interest invoices. The total value of the interest booked in 2017 for the receivables from KazMunayGas Trading AG was RON 23.15 million.

In 2018 out of the total of RON 80.8 million (2017: 68.1) representing other financial expenses an amount of approximately RON 79.9 million (2017: RON 68.1 million) represents interest and other financial expenses owed to KMG Trading for financing activities.

**21. INCOME TAX**

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

As of 31 December 2018, the Company had the following total unused fiscal losses:

Entity	<u>Fiscal</u> <u>loss 2018</u> Million RON	<u>Fiscal</u> <u>loss 2017</u> Million RON
Rompetrol Rafinare SA	<u>1,901.9</u>	<u>1,923.6</u>

Deferred tax assets for losses carried forward were recognized because, following completion of its modernization program, the Company 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 Company'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 5), and adjusted to reach taxable result (e.g. adjusting for fiscal depreciation vs. accounting depreciation and average level of non-deductible expenses).

**21. INCOME TAX (continued)**

In 2018, Rompetrol Rafinare recorded fiscal loss, Also, in 2018 the cumulative fiscal loss was increased by RON 27 million, due to fiscal authority D.G.A.M.C. – A.N.A.F. decision to adjust expenses/revenues with affiliates after the fiscal control performed at KMG Rompetrol SRL, affecting the fiscal loss related to 2011-2015 period.

A breakdown of tax losses of the Company in years is displayed below:

Entity Rompetrol Rafinare SA	Fiscal loss Million	Fiscal loss Expires in
2012	319.31	2019
2013	391.63	2020
2014	720.75	2021
2015	382.97	2022
2016	12.20	2023
2017	-	2024
2018	75.03	2025
	<b>1,901.90</b>	

**Reconciliation of comprehensive income with tax result**

Below there is a reconciliation between the current income tax recorded in the income statement and the whole expenses with the profit tax, based on the temporary differences and non-deductible items:

	2018	2017
<b>Result before tax</b>	<b>(230,205,630)</b>	<b>418,336,728</b>
Addition: Non-deductible expenses	557,946,326	352,134,548
Less: Non-taxable income	(58,050,719)	(28,710,079)
Less: Non-fiscal depreciation	(344,724,223)	(337,055,123)
Deductible legal reserve	-	(20,916,836)
<b>Fiscal (Net loss)</b>	<b>(75,034,245)</b>	<b>383,789,238</b>
Reported fiscal loss	(1,826,865,568)	(2,307,374,419)
<b>Taxable base</b>	<b>(1,901,899,813)</b>	<b>(1,923,585,181)</b>
<b>Income tax (16%)</b>	-	-

In 2018 the following income was considered non-taxable when calculating tax loss:

- Tax provisions (income from reversal of provisions for which no deduction was allowed) RON 58.1 million;

The following were considered non-deductible expenses when determining tax loss:

- Expenses with accounting depreciation, amounting to RON 321.6 million;
- Expenses with provisions amounting RON 105.8 million;
- Interests amounting RON 109.6 million;
- Fines, increases, and penalties amounting to RON 0.75 million;
- Receivables write-off expenses in amount of RON 16.4 million;
- Other non-deductible expenses amounting to RON 1 million.



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**21. INCOME TAX (continued)**

**DEFERRED TAX**

	<u>Balance at January 1, 2018</u>	<u>Charged / (credited) to Profit &amp; loss</u>	<u>Charged to Equity</u>	<u>Balance at December 31, 2018</u>
<b>Temporary differences</b>				
<b>Asset/Liability</b>				
Property, plant and equipment	1,223,986,947	22,413,706	(40,136,459)	1,206,264,195
Provisions	(281,410,996)	-	-	(281,410,996)
Fiscal loss	(1,923,585,182)	(20,180,736)	-	(1,943,765,918)
<b>Total temporary differences (Asset)/Liability</b>	<b>(981,009,231)</b>	<b>2,232,970</b>	<b>(40,136,459)</b>	<b>(1,018,912,720719)</b>
Property, plant and equipment	195,837,911	3,586,193	(6,421,833)	193,002,271
Provisions	(45,025,759)	-	-	(45,025,759)
Fiscal loss	(307,773,629)	(3,228,918)	-	(311,002,547)
<i>Deferred tax (assets)/liability calculated</i>	<i>(156,961,477)</i>	<i>357,275</i>	<i>(6,421,833)</i>	<i>(163,026,035)</i>
<b>Deferred tax (assets)/liability recognised</b>	<b>(156,961,477)</b>	<b>357,275</b>	<b>(6,421,833)</b>	<b>(163,026,035)</b>

As of December 31, 2018 it was recognized an increase of deferred tax asset by RON 6.06 million (an amount of RON 0.36 million was recognised in profit & loss account and an amount of RON 6.42 million was recognized on equity).

**Contingencies related to taxation**

The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements.

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**22. OPERATING SEGMENT INFORMATION**

**A. Operating segments**

For management purposes, the company is organized in two segments - refining and petrochemicals.

**2018 Income statement**

	Refining	Petrochemicals	Unallocated amounts between the segments	Total
Net turnover	13,320,770,958	795,144,733	-	14,115,915,691
Cost of sales	(12,844,328,255)	(764,905,950)	-	(13,609,234,205)
<b>Gross profit</b>	<b>476,442,703</b>	<b>30,238,782</b>	-	<b>506,681,486</b>
Selling, general and administrative expenses	(284,782,121)	(41,971,799)	-	(326,753,920)
Other operating revenues / expenses, net	(68,837,668)	-	-	(68,837,668)
<b>Operating profit/ (loss)</b>	<b>122,822,915</b>	<b>(11,733,017)</b>	-	<b>111,089,898</b>
Financial expenses	-	-	(173,755,558)	(173,755,558)
Financial revenues	-	-	14,718,404	14,718,404
Net foreign exchange gains / (losses)	-	-	(181,901,099)	(181,901,099)
<b>Profit/(loss) before income tax</b>	<b>122,822,915</b>	<b>(11,733,017)</b>	<b>(340,938,253)</b>	<b>(229,848,355)</b>
Deferred tax	-	-	(357,275)	(357,275)
<b>Net Profit / (Loss)</b>	<b>122,822,915</b>	<b>(11,733,017)</b>	<b>(341,295,528)</b>	<b>(230,205,630)</b>
out of which Depreciation and amortization	(262,920,655)	(58,653,266)	-	(321,573,922)

**2017 Income statement**

	Refining	Petrochemicals	Unallocated amounts between the segments	Total
Net turnover	10,421,490,964	771,264,349	-	11,192,755,314
Cost of sales	(9,917,011,154)	(711,333,026)	-	(10,628,344,179)
<b>Gross profit</b>	<b>504,479,811</b>	<b>59,931,323</b>	-	<b>564,411,135</b>
Selling, general and administrative expenses	(244,604,608)	(33,266,283)	-	(277,870,892)
Other operating revenues / expenses, net	(63,179,014)	-	-	(63,179,014)
<b>Operating profit/ (loss)</b>	<b>196,696,188</b>	<b>26,665,040</b>	-	<b>223,361,229</b>
Financial expenses	-	-	(159,732,555)	(159,732,555)
Financial revenues	-	-	46,439,668	46,439,668
Net foreign exchange gains / (losses)	-	-	308,268,386	308,268,386
<b>Profit/(loss) before income tax</b>	<b>391,671,689</b>	<b>26,665,040</b>	<b>194,975,500</b>	<b>418,336,728</b>
Deferred tax	-	-	-	-
<b>Net Profit / (Loss)</b>	<b>391,671,689</b>	<b>26,665,040</b>	<b>194,975,500</b>	<b>418,336,728</b>
out of which Depreciation and amortization	(219,781,897)	(52,781,120)	-	(272,563,017)

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

In 2018 turnover of the Company are included the clients KazMunayGas Trading AG and Rompetrol Downstream SRL, that generate more than 10% of the total sales, their value amounting to RON 9,696.2 million (2017: RON 7,566.6 million).

For the income statement, management analysis are made separately for the 2 segments: Refining and Petrochemicals.

Since many of the Petromidia refinery facilities are used jointly by refining and the petrochemicals segment 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.

**B. Geographical segments**

All the production facilities of the Company are located in Romania. The following brakedown provides an analysis of the net turnover of the Company depending on the geographical market (based on customers location):

	<u>2018</u>	<u>2017</u>
Romania	7,425,917,463	5,788,549,907
Europe	6,528,944,929	5,144,498,032
Asia	153,367,222	185,520,860
America	7,686,077	74,186,515
<b>Total</b>	<b><u>14,115,915,691</u></b>	<b><u>11,192,755,314</u></b>

**23. RELATED PARTIES**

The ultimate parents of the Company are the company "State holding enterprise on assets management – Samruk-Kazyna" (90%) and National Bank of Republic of Kazakhstan (10%), companies with its headquarters in Kazakhstan, entirely owned by the Kazakh State. The related parties and the nature of relationship is presented below:

<u>Name of the affiliated entity</u>	<u>Nature of the relation</u>
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V
Rominserv S.R.L	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetrol Well Services S.A.	Company held by KMG International N.V
Palplast S.A.	Company held by KMG International N.V
Rompetrol Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetrol Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal S.R.L.	Company held by KMG International N.V
Rompetrol Financial Group S.R.L.	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping S.R.L.	Company held by KMG International N.V
Rompetrol Albania Wholesale Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Ukraine LTD	Company held by KMG International N.V (KMG International N.V. owns 50%)
Rominserv Valves IaiFo SRL	Company held by KMG International N.V
KAZMUNAYGAS – Engineering LLP (former	Company held by KMG International N.V

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Rominserv Kazakhstan LLC)	Company held by KMG International N.V (KMG International group holds: 43.42%)
Uzina Termoelectrica Midia S.A.	
Global Security System S.A.	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Romp petrol Downstream S.R.L.	Company affiliated to the Company
Romp petrol Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Romp petrol Logistics S.R.L.	Company affiliated to the Company
Romp petrol Quality Control S.R.L.	Company affiliated to the Company
Romp petrol Gas S.R.L.	Company held by KMG International N.V
Dyneff Espagna SLU	A company of Rompetrol France group, where KMG International N.V. owns 49%
DPPLN SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
TMP SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Dyneff Gas Stations Network SL	A company of Rompetrol France group, where KMG International N.V. owns 49%
Romp petrol France SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DYNEFF TRADING SL (former Bioneff SL)	A company of Rompetrol France group, where KMG International N.V. owns 49%
Agat Ltd	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 50%)
Romp petrol Albania Downstream Sh.A.	Company held by KMG International N.V (in liquidation)
Romp petrol Albania Sh.A.	Company held by KMG International N.V (in liquidation)
Romp petrol Distribution Albania Sh.A	Company held by KMG International N.V (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Romp petrol Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V
EPPLN SAS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 49%)
KazMunayGas Trading Singapore	Company held by KMG International N.V (in liquidation)
KMG Rompetrol Services Center SRL (former Rompetrol Exploration & Production SRL)	Company held by KMG International N.V
Romp petrol Drilling	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Bio Advanced Energy SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Bio Advanced Energy PROD SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DP FOS SA	A company of Rompetrol France group, where KMG International N.V. owns 49%
SPR SA	A company of Rompetrol France group, where KMG International N.V. owns 49%
Fondul de Investitii in Energie Kazah-Roman S.A.	Company held by KMG International N.V
EPPLN SAS (Entrepot Petrolier de Port La Nouvelle)	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG ROMPETROL DEVELOPMENT S.R.L.	Societate a Grupului KMG International
Dyneff Retail SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Oman JV	Societate a Grupului KMG International
Boissonnade Combustibles SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
"Paul Orriols"Combustibles de Cerdagne SA	A company of Rompetrol France group, where KMG International N.V. owns 49%

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**23. RELATED PARTIES (CONTINUED)**

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

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

	<b>Receivables and other assets</b>	
	<b>December 31, 2018</b>	<b>December 31, 2017</b>
KazMunayGas Trading AG	585,840,054	658,908,913
Rompetrol Downstream S.R.L	559,577,571	586,070,373
Rompetrol Petrochemicals S.R.L.	1,657	1,657
KMG International N.V.	4,734,170	3,268,860
Rompetrol Gas SRL	3,379,906	10,047,709
Rompetrol Moldova ICS	-	-
Rompetrol Bulgaria JSC	172,301	3,111,148
Rominserv S.R.L.	14,685,653	3,672,459
Rompetrol Quality Control S.R.L.	142,898	129,968
Rompetrol Logistics S.R.L	8,764	48,853
Midia Marine Terminal S.R.L.	1,053,210	1,040,455
Uzina Termoelectrica Midia S.A.	12,897,191	8,467,191
KMG Rompetrol SRL	41,822,492	7,555,392
Global Security Systems S.A.	607,225	606,637
Kazmunaygas – Engineering LLP (former Rominserv Kazakhstan(RKZ))	685,045	654,422
Rompetrol Energy S.A.	-	-
Palplast S.A.	4,901,334	5,340,002
Byron Shipping Ltd.	4,302	3,924
Rompetrol Well Services S.A.	-	-
Rompetrol Ukraina	15,425	14,736
Oilfield Exploration Business Solutions S.A.	2,583,952	1,932,419
KazMunayGas Engineering	-	-
Rompetrol Financial Group SRL	10,431	10,340
KMG Rompetrol Services Center SRL	52,139	50,516
TRG Petrol Ticaret Anonim Sirketi	15,359,133	10,521,367
<b>Total</b>	<b>1,248,534,853</b>	<b>1,301,457,341</b>

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**23. RELATED PARTIES (continued)**

	<b>Payables, loans and other liabilities</b>	
	<b>December 31, 2018</b>	<b>December 31, 2017</b>
KazMunayGas Trading AG	2,738,264,220	2,784,983,327
Rompetrol Downstream S.R.L	124,373,373	43,115,612
Rompetrol Petrochemicals S.R.L.	8,440,871	7,685,137
KMG International N.V.- loans(note13)	243,663,781	494,663,734
KMG International N.V.-interest	8,415,029	1,830,480
KMG International N.V.-interest hybrid loan	69,291,612	-
KMG International N.V.-trade debts	18,003,466	13,976,078
Rompetrol Gas SRL	22,140,921	2,744,523
Rompetrol Moldova ICS	6,851,705	14,231,107
Rominserv S.R.L.	168,152,011	121,931,041
Rompetrol Quality Control S.R.L.	12,801,524	17,245,271
Rompetrol Logistics S.R.L	490,857	905,223
Midia Marine Terminal S.R.L.- loans(note13)	27,211,100	27,211,100
Midia Marine Terminal S.R.L.-interest	6,782,733	4,896,117
Midia Marine Terminal S.R.L.-trade debts	151,732,497	142,234,826
Rompetrol Well Services S.A. - loans (note 13)	34,300,000	34,300,000
Uzina Termoelectrica Midia S.A.	31,816,349	14,154,735
KMG Rompetrol SRL- debt cash pooling	433,543,620	410,707,468
KMG Rompetrol SRL-interest cash pooling	1,361,012	1,328,165
KMG Rompetrol SRL-trade debts	23,057,982	32,002,902
Global Security Systems S.A.	620,700	1,406,484
Rompetrol Exploration & Production S.R.L.	66	66
Rompetrol Financial Group SRL - loans(note13)	115,000,000	115,000,000
Rompetrol Financial Group SRL-interest	2,746,271	5,239,886
KMG Rompetrol Services Center SRL	3,274,809	1,407,558
TRG Petrol Ticaret Anonim Sirketi	10,753	565
<b>Total</b>	<b>4,252,347,263</b>	<b>4,293,201,405</b>

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2019.

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**23. RELATED PARTIES (continued)**

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

Name of related party	Nature of transaction , sales / purchases	Sales		Purchases	
		2018	2017	2018	2017
0	0				
KazMunayGas Trading AG	Raw materials / Petroleum products	4,608,916,330	3,596,692,762	11,769,750,762	9,239,499,472
Rompelrol Downstream S.R.L	Petroleum products, rent, utilities and other	5,087,275,324	3,976,522,170	2,067,085	2,502,696
Rompelrol Petrochemicals S.R.L.	Rent, utilities and other	16,746	16,461	-	-
KMG International N.V.	Loan interest, management services	-	-	39,587,013	40,343,844
Rompelrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	444,121,854	363,426,078	524,706	156,034
Rompelrol Moldova ICS	Sales of petroleum products	877,756,955	728,282,995	-	-
Rompelrol Bulgaria JSC	Sales of petroleum products / agency services	56,855,758	70,100,696	-	462,673
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	2,386,559	2,457,032	342,013,034	326,731,573
Rompelrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	1,319,470	2,910,961	27,149,815	24,230,497
Rompelrol Logistics S.R.L	Transport, rent/Rent, utilities	13,117	11,996	164,324	159,759
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, re-invoicing, loan interest ,others	2,069,557	1,613,115	62,415,456	76,853,466
Rompelrol Well Services S.A.	Loan interest	-	-	2,002,474	1,438,982
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	71,272,767	63,719,869	129,334,145	111,213,549
KMG Rompetrol S.R.L.	Loan interest, management services	8,383,530	21,748,703	123,524,441	104,862,375
Global Security Systems S.A.	Security and protection services	1,417	1,452	11,118,684	10,503,969
Byron Shipping S.R.L.	Demurrage /Rent, re-invoices of other services	37,406	36,621	2,828	69,652
Rompelrol Financial Group SRL	Loan interest	-	-	6,706,385	4,792,944
KMG Rompetrol Services Center SRL	Shared services	509,562	521,953	16,601,909	14,815,333
TRG Petrol Ticaret Anonim Sirketi	Petroleum products	68,639,827	102,508,917	-	80
		<b>11,229,576,179</b>	<b>8,930,571,781</b>	<b>12,532,967,060</b>	<b>9,958,636,999</b>

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, based on a Government Ordinance, the Ministry of Economy Trade and Business Environment ("MECMA") became shareholder until May 2013 when, following the reorganization of MECMA, the Ministry of Economy ("ME") became the new shareholder. The ministry was later renamed as Ministry of Energy, Small- and Medium-sized Enterprises and Business Environment. Its current name is Ministry of Energy. As a result MFPR, MECMA, ME and Other Authorities are considered to be a related party of the Group. There are no transactions, balance sheets at the year-end in relation with MFPR, MECMA, ME and other Romanian authorities during the time of their affiliation, other than those arising from Romanian fiscal and legislation requirements. The salaries paid to the Company directors in 2018 were RON 953,855 (RON 761,473 in 2017). The salaries and bonuses paid to the Company management in 2018 (in average 12 persons) was RON 3,960,493 (RON 2,931,739 in 2017, in average 12 persons).

## 24. EARNINGS PER SHARE

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

	<u>January - December 2018</u>	<u>January - December 2017</u>
Net profit (+), loss (-)	(230,205,630)	418,336,728
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (bani/share)	(0.52)	0.95

## 25. CONTINGENT LIABILITIES

a) Related to the Company'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 Company based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 26). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Company processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Company were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Company cancelled such invoices. The Company is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Company liable for paying such excises; the Company appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.3 million). The management is confident that the likelihood of reversal of the earlier court decision is very low. No changes were incurred in 2018.

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.

Through 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 and the remaining, the difference being paid in cash.

The tax assessment on VAT group and RRC was challenged on February 26, 2018. On January 23, 2019 the fiscal authority D.G.S.C. – A.N.A.F. issued the settling decision upon Company's administrative appeal by which the fiscal authority decided the followings:



**25. CONTINGENT LIABILITIES (continued)**

- i. out of RON 20 million representing VAT (out of which RON 12.8 million related to VAT of Rompetrol Rafinare SA) the fiscal authority rejects the appeal for the amount of RON 11.6 million (RON 11.07 million related to Rompetrol Rafinare SA) and cancels the imposing decision for the amount of RON 8.4 (RON 1.75 million related to Rompetrol Rafinare SA).
- ii. rejects the appeal for the amount of RON 6.5 million representing Rompetrol Rafinare SA withholding tax and the related accessories in amount of 0.2 million RON.
- iii. out of RON 16.3 million representing penalties related to VAT (out of which RON 12 million related Rompetrol Rafinare SA) the fiscal authority rejects the appeal for the amount of RON 11.05 million (RON 10.6 million related to Rompetrol Rafinare SA) and cancels the imposing decision for the amount of RON 5.3 (RON 1.4 million related to Rompetrol Rafinare SA).
- iv. rejects the appeal against the decrease of The Company's fiscal loss with the amount of RON 140 million.

Further on The Company is assessing the option to address the competent court in order to challenge the amounts rejected by D.G.S.C. – A.N.A.F on the administrative appeal formulated by Rompetrol Rafinare SA .

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

**26. LEGAL MATTERS**

**Litigation with the State involving criminal charges**

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain former shareholders directors, managers and external censors of Rompetrol Rafinare S.A. and other individuals; these investigations were carried out at a formal level and materialized into different criminal proceeding activities (including specialized judicial expertise), currently undergoing the criminal prosecution phase. At the present date, only one of the directors of the Company who is involved in the investigation, still works for KMG International Group.

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

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

Considering the above-mentioned charges, a freezing 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.

Rompetrol Rafinare challenged the asset freeze in Court. 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.

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

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 on the other hand to be redone some evidences (such as expertise report) performed before 2016. No reply received yet from DIICOT on this topic.

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

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

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

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

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

A similar challenge was submitted on November 23, 2018. On December 04, 2018 the prosecutor agreed in principle with a partial release of the seizure provided that an expertise will be performed, and the final report will show that the value of the assets frozen exceed the alleged claims. The report was submitted to DIICOT on March 15, 2019.

A new ordinance was issued by DIICOT on November 9, 2018 which changes the legal framework for all deeds investigated in the case.

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

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

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

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

In March 2012, the National Agency for Tax Administration issued to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million (equivalent of USD 15 million at historical rate), out of which half represents additional principal tax liabilities and the other half represents late payment interest and penalties.

On October 27 2014 Constanta Court of Appeal held liable the National Agency for Tax Administration for paying back Rompetrol Rafinare approximately RON 21 million (equivalent of USD 6.2 million at the historical rate) out of which approximately RON 19 million have been refunded to Rompetrol Rafinare in August 2013 and to pursue to audit again for RON 4.6 million VAT and related interest and penalties up to March 2012 of approximately RON 5.3 million, resulting to a total of RON 9.7 million (equivalent of USD 2.8 million) to be further assessed. This Decision was appealed by both parties but on October 12, 2017, the Supreme Court rejected both appeals, so the decision of the first instance remained unchanged.

The re-audit for approximately RON 4.6 million (equivalent of USD 2.8 million) initiated in February 2018 was completed in March 22, 2018 by another tax inspection team maintaining the initial decision of National Agency for Tax Administration for the main VAT amount of RON 4.48 million, assessing a total of RON 8.6 million as related interest and penalties up to April 2018.

The company challenged tax decision for the amount of RON 13.1 million on May 18, 2018. The challenge submitted by the company was admitted and amount paid was reimbursed to the company.

### **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 CO2 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 fulfil 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\*.

The last hearing was on February 25, 2019 and a decision was released on March 19, 2019. The court admitted Rompetrol Rafinare S.A claim and found liable both the Romanian Government and Ministry of Environmental for damages in amount of EUR 31,806,598.74 in RON at the payment date for failure to observe the final Supreme Court decision issued in October 2012.

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

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

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

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

- a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16<sup>th</sup>, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the High Court of Cassation and Justice is established for January 30, 2020.
- 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. On November the 2nd 2018, the case has been suspended.

## 26.LEGAL MATTERS (continued)

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

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta (*National Company of Constanta Maritime Ports Administration*) of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the 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 1.8 mil USD - dredging expenditures and 3.3 mil USD - commercial loss. The complaint leads to an investigation launched in April 2016 by the Competition Council. Competition Council is entitled to acknowledge the violation by Administrația 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, the obligations resting upon it as administrator of port areas and supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port. By Decision 21/2018, the Competition Council rejected the complaints formulated by Rompetrol Rafinare SA and Midia Marine Terminal SRL. Both companies challenged this decision at Bucharest Court of Appeal, first term being scheduled for May 9, 2019.
- b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (0.8 mil USD) and for restitution of dredging expenses (USD 1.7 million). On May 19th, 2017, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff:
  - The amount of EUR 1.57 million, representing dredging expenditures paid by Rompetrol Rafinare SA, during the period 30 April 2015 - 11 May 2015;
  - The amount of RON 0.079 million representing legal costs.Both parties filed 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 the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal. The decision has been communicated and the recourse has been filled by Rompetrol Rafinare SA on August 6, 2018. The case is in filter proceedings, and the first hearing term will be established later.

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

On August 22, 2016 a technical incident occurred within the DAV plant. Following the event, two employees of a Group' subsidiary Rominserv SRL suffered burns and other two employees 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 being open 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 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.

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

By the final conclusion of Preliminary Chamber procedure, communicated to Rompetrol Rafinare and Rominserv on March 27, 2017 the court ordered, 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/2016, irregularity of the indictment, 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 and the subsequent Act of Indictment 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 reject and the criminal file shall be sent back to the prosecutor's office of Constanta in order to resume the criminal prosecution activities within the limits of the legality provisions. Rompetrol Rafinare SA 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.

As a result of the completion of the prosecutor activities according to the judge decision in the preliminary chamber, on January 14, 2019 the company received the prosecutor indictment from the Constanta Court (Judecatorie). Taking in consideration that the court has been notified with a new indictment, the preliminary chamber procedure is to be carried out. First hearing sheduled by the court (Judecatoria Constanta) in preliminary chamber procedure is May 13, 2019.

According with prosecutor second indictment, the following offenses were retained for ROMPETROL RAFINARE, ROMINSERV, STANCIU DANIEL, MARGINEAN ION and CARAMAN VASILE:

- a. the non-observance by negligence of the legal labour health and safety measures, as per art 349 alin.2 of Criminal code;
- b. bodily harm by negligence as per art. 196 alin. 1 and 4 of Criminal code;
- c. manslaughter as per art. 192 alin. 1,2 and 3 of Criminal code;
- d. accidental pollution, as per art. 98 alin.1 lit.b of EGO no 195/2005.

Within 20 days from receipt of the document will be formulated written requests and exceptions relating the legality of the procedure carried out by prosecutor.

Relating RRC employees, Andrei Felicia and Oancea Cornel, the file has been disposed. First hearing sheduled by the court (Judecatoria Constanta) in preliminary chamber is March 18, 2019.

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 Labour Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. On August 16<sup>th</sup>, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labour 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. The court suspended the case until the criminal file will be solved.

## **26.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 RON would be applied for Company's failure to send a notice to PEPA with respect to the commencement of the remedial works and to the identity of the contractor appointed in the Project (by submitting a copy of the contract concluded therewith), including for the failure to perform the works described in the remedial project and to comply with the deadlines specified in relation thereto.

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

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

- a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14, 2017. The ENG point of view was received on January 17<sup>th</sup> 2018;
- b) preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017; the legal response time, according to the contentious law is 30 days.
- c) suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; On February 5<sup>th</sup> 2018 the Constanta court has accepted the request for suspension of the Prior Notice no. 149/21.11.2017 and suspended the effects of prior notification until the request for annulment brought against the same administrative act will be solved; 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 3<sup>rd</sup> 2018. The action was rejected by the court, the court decision will be communicated and an appeal will be lodged.
- 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; On March 5, 2019 the final court rejected the complaint.
- f) request for annulment of the Finding Note no. 299/15.11.2017 issued by Environment National Guard-Prahova Commissariat, registered at Constanta court; the file was suspended until the file mention at the above letter d) will be solved.
- g) preliminary complaint against Decisions no.7156/27.06.2018 and 77/10.07.2018 issued by PEPA, relating the company request for revision of the Environmental Agreement; the preliminary complaint was rejected, the request for annulment of the authority decisions relating the rejection for revision of the Environmental Agreement was registered at the court (Tribunalul Constanta);
- h) preliminary complaint against Assessment Note of the Ploiesti Environmental Guard issued on October 16, 2018 was rejected by the authority. The complaint was rejected and the company has 6 months to challenge it before the Court;
- i) Complaint against minute of fine issued by Environmental National Guard on November 28, 2018; will be scheduled first hearing.

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

- j) Complaint against the minute of fine issued by Environmental National Guard on February 27, 2019; will be established the first hearing by the Ploiesti court (Judecatoria Ploiesti).

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

On May 8, 2018 a request was made for revision of the actual Environmental Agreement by the company and was rejected by PEPA on July 10<sup>th</sup>, 2018. The company legal action initiated against environmental authorities' documents is detailed at the above point g).The request for annulment of the PEPA decision is currently pending to be registered to the court.

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.

## **27. COMMITMENTS**

### **Environmental commitments**

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

The Company has recognized a provision for restoration cost at its Vega location, see Note 15.

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

### **Operating leases**

The Company has entered into operating leases on plots, administrative buildings and other assets:

	<b>2018</b>	<b>2017</b>
Within one year	3,879,063	3,898,301
After one year but not more than five years	7,164,921	10,953,343
More than five years	618,830	709,471
	<u><b>11,662,814</b></u>	<u><b>15,561,115</b></u>

### **Other commitments**

As of December 31, 2018, Rompetrol Rafinare S.A. contracted capital commitments for projects related to capital maintenance, authorizations, etc. in amount of USD 28.63 million (2017: USD 28.89 million).

### **Sale and purchase commitments**

As of December 31, 2017, Rompetrol Rafinare S.A. contracted purchase contracts for raw materials and utilities estimated to USD 2,318.15 million (2017: USD 2,466.58 million) and has commitments for sales of petroleum, petrochemicals products and utilities sales estimated to USD 4,411.80 million (2017: USD 3,016 million).



**28. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS**

**A. CAPITAL RISK**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of bank debt and shareholder loans (see Notes 13 and 14), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the "Statement of Changes in the Shareholders' Equity".

**B. GEARING RATIO**

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Debt (excluding shareholder and related parties loans)	596,227,533	466,868,013
Cash and cash equivalents	(19,450,444)	(22,863,280)
<b>Net Borrowings</b>	<u>576,777,089</u>	<u>444,004,733</u>
Equity (including shareholder and related parties loans)	2,778,272,075	3,262,599,767
<b>Gearing ratio</b>	<b>20.8%</b>	<b>13.6%</b>

**C. FINANCIAL INSTRUMENTS**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Financial assets</b>		
Trade receivables and other receivables	1,320,378,755	1,490,364,904
Derivatives	6,197,265	-
Cash and bank accounts	19,450,444	22,863,280
<b>TOTAL FINANCIAL ASSETS</b>	<u>1,346,026,464</u>	<u>1,513,228,184</u>
<b>Financial liabilities</b>		
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Short term borrowings from shareholders and related parties	438,118,914	683,141,317
Derivatives	-	515,760
Commercial liabilities and other liabilities	3,778,793,301	3,741,224,898
Short term loans	106,893,282	467,139,993
Long term borrowings from banks	489,405,927	-
Hybrid instrument - long-term portion	69,291,612	57,155,251
<b>TOTAL FINANCIAL LIABILITIES</b>	<u>4,882,503,037</u>	<u>4,949,177,220</u>

The estimated fair values of the instruments presented above approximate their carrying amounts except for derivative which are presented at fair value.

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

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

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

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

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

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

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

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

### **Fair value hierarchy**

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

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

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

	<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade receivables and other receivables	1,320,378,755	1,320,378,755	-	-
Derivatives	6,197,265	-	6,197,265	-
Cash and bank accounts	19,450,444	19,450,444	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,346,026,464</b>	<b>1,339,829,199</b>	<b>6,197,265</b>	<b>-</b>
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	438,118,914	438,118,914	-	-
Derivatives	-	-	-	-
Commercial liabilities and other liabilities	3,778,793,301	3,778,793,301	-	-
Short term loans	106,893,282	106,893,282	-	-
Long term borrowings from banks	489,405,927	489,405,927	-	-
Hybrid instrument - long-term portion	69,291,612	-	69,291,612	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,882,503,037</b>	<b>4,813,211,425</b>	<b>69,291,612</b>	<b>-</b>

	<u>31 December 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade receivables and other receivables	1,490,364,904	1,490,364,904	-	-
Cash and bank accounts	22,863,280	22,863,280	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,513,228,184</b>	<b>1,513,228,184</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	683,141,317	683,141,317	-	-
Derivatives	515,760	-	515,760	-
Commercial liabilities and other liabilities	3,741,224,898	3,741,224,898	-	-
Short term loans	467,139,993	467,139,993	-	-
Long term borrowings from banks	-	-	-	-
Hybrid instrument - long-term portion	57,155,251	-	57,155,251	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,949,177,220</b>	<b>4,891,506,209</b>	<b>57,671,011</b>	<b>-</b>

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

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

**D. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

**Balance Sheet**

	<b><u>31-Dec-18</u></b>	<b><u>31-Dec-17</u></b>
Derivative financial assets	6,197,265	-
Derivative financial liabilities	-	(515,760)
<b>Net position - asset/(liability)</b>	<b><u>6,197,265</u></b>	<b><u>(515,760)</u></b>

**Income Statement**

	<b><u>31-Dec-18</u></b>	<b><u>31-Dec-17</u></b>
Unrealised (gains)	-	-
Unrealised (losses)	-	-
<b>Net position - (gain)/loss - in Cost of sales</b>	<b>-</b>	<b>-</b>
Realised losses – net	<u>6,907,233</u>	<u>38,266,959</u>
<b>Total position - loss/(gain) - in Cost of sales</b>	<b><u>6,907,233</u></b>	<b><u>38,266,959</u></b>

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

**E. MARKET RISK**

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

**F. FOREIGN CURRENCY RISK MANAGEMENT**

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

Crude oil imports, loans and a significant part of petroleum products are all denominated principally in US Dollars. Therefore, in respect of liabilities the Company is exposed to the risk of US dollar appreciation to the detriment of local currency, while in respect of foreign currency receivables, exposure arises in the context of depreciation of US dollar currency. Moreover, certain assets and liabilities are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Company Treasury is responsible for handling the Company foreign currency transactions.

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

**G. FOREIGN CURRENCY SENSITIVITY ANALYSIS**

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

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

RON	USD		EUR	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
5%	(154,216,994)	(162,621,086)	5,501,207	4,110,054
-5%	154,216,994	162,621,086	(5,501,207)	(4,110,054)

**H. INTEREST RATE RISK MANAGEMENT**

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Company to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Company's borrowings, are provided in Note 13 and 14.

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

If the interest rates had varied by + / - 50 points and all the other variables had remained constant, the net result of the Company as at 31 December 2018 would increase / decrease by RON 14.9 million (2017: increase / decrease by RON 15.9 million).

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL REPORT**  
for financial year ended on 31 December 2018  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

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

**I. Liquidity risk**

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2018 and 31 December 2016 based on contractual outdated payments, including interest payable until the end of the contracts for finance leasing and loans.

Balance as at December 31, 2018	Less than 1 month or current	<3 months	3-12 months	1-5 years	>5 years	Total
Commercial liabilities and other liabilities	3,603,842,309	174,942,224	8,768	-	-	3,778,793,301
Short term borrowings from related parties	23,100,000	16,901,266	420,585,593	-	-	460,586,859
Short term borrowings from banks	71,676	1,613,900	109,404,075	-	-	111,089,651
Long term borrowings from banks	-	6,450,370	19,351,110	523,807,901	-	549,609,381
Hybrid instrument - long-term portion	-	-	-	-	69,291,612	69,291,612
	<b>3,627,013,985</b>	<b>199,907,760</b>	<b>549,349,547</b>	<b>523,807,901</b>	<b>69,291,612</b>	<b>4,969,370,805</b>

Balance as at December 31, 2017	Less than 1 month or current	<3 months	3-12 months	1-5 years	>5 years	Total
Commercial liabilities and other liabilities	3,577,911,814	163,141,849	-	-	171,235	3,741,224,898
Derivatives	515,760	-	-	-	-	515,760
Short term borrowings from related parties	529,730,217	11,294,827	142,211,100	-	-	683,236,144
Short term borrowings from banks	31,802,772	955,031	435,337,221	-	-	468,095,024
Long term borrowings from banks	-	4,700,554	1,566,851	-	-	6,267,405
Hybrid instrument - long-term portion	-	-	-	-	57,155,251	57,155,251
	<b>4,139,960,563</b>	<b>180,092,261</b>	<b>579,115,172</b>	<b>-</b>	<b>57,326,486</b>	<b>4,956,494,483</b>

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

**J. OIL PRODUCTS and RAW MATERIAL PRICE RISK**

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

The operating activities of the Company require ongoing purchase of crude oil to be used in its production as well as for the supply of petroleum products to its customers. Due to significantly increased volatility of crude oil prices, the management developed a hedge policy which was presented to the Company's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Company started on January 2011 to hedge commodities held by Rompetrol Rafinare.

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

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

**K. CREDIT RISK**

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

**Trade receivables**

Outstanding customer receivables are regularly monitored. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of aging.

**Financial instruments and bank deposits**

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

**29. SUBSEQUENT EVENTS**

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was extended until April 10, 2019.

Rompetrol Rafinare S.A credit facility in amount of RON 7 million granted by Rompetrol Well Services S.A was extended until April 14, 2019.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was extended until May 3, 2019.

Rompetrol Rafinare S.A credit facility in amount of RON 11.2 million granted by Rompetrol Well Services S.A was extended until May 28, 2019.