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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 consolidate  
*Report on the Audit of the Consolidated Financial Statements*

### Opinia *Opinion*

Am auditat situatiile financiare consolidate 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, si ale filialelor sale (impreuna „Grupul”), care cuprind situatia consolidata a pozitiei financiare la data de 31 decembrie 2018, contul de profit si pierdere consolidat, contul de profit si pierdere global consolidat, situatia consolidata a modificarilor capitalului propriu si situatia fluxurilor de trezorerie consolidata pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative, toate sumele fiind exprimate in dolari americani („USD”). De asemenea, am verificat conversia in RON a sumelor prezentate in aceste situatii pe baza descrisa in nota 2e.

*We have audited the consolidated 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, and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in United States Dollar ("USD"). We have also checked the translation into Romanian lei on the basis described in Note 2e.*

In opinia noastra, situatiile financiare consolidate anexate ofera o imagine fidela si justa a pozitiei financiare a Grupului la data de 31 decembrie 2018, ca si a performantei financiare si a fluxurilor de trezorerie ale acestuia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Standardele Internationale de Raportare Financiara adoptate de Uniunea Europeana.

*In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.*



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## 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 consolidate” din raportul nostru. Suntem independenti fata de Grup 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 consolidate 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated 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 consolidate din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare consolidate 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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.*



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Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare consolidate” 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 consolidate. 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 consolidate anexate.

*We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the consolidated 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 consolidated 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 consolidated financial statements.*

Aspecte cheie de audit	Modul in care auditul a abordat aspectul cheie de audit
<p><b>Testarea pentru depreciere a fondului comercial si a imobilizarilor corporale</b>            Informatiile prezentate de grupul Rompetrol Rafinare cu privire la fondul comercial si imobilizarile corporale, inclusiv cu privire la deprecierea aferenta, sunt incluse in nota 4, nota 5 si respectiv nota 6.</p>	
<p>Grupul Rompetrol Rafinare trebuie sa testeze anual pentru depreciere valoarea fondului comercial. La 31 decembrie 2018, fondul comercial al Grupului are valoarea de 83 milioane USD si este semnificativ pentru auditul nostru. Testarea pentru depreciere a fondului comercial a fost efectuata la nivelul unei singure unitati generatoare de numerar - Downstream, careia i-a fost alocat acest fond comercial.</p> <p>Imobilizarile corporale sunt de asemenea semnificative pentru auditul nostru, avand in vedere importanta pozitiei bilantiere de 1.235 milioane USD la 31 decembrie 2018. De asemenea, evaluarea conducerii cu privire la indicatorii de depreciere a unitatilor generatoare de numerar si respectiv a activelor individuale implica analiza unor surse de informatii diverse, inclusiv a factorilor cu privire la mediul economic si a factorilor specifici industriei.</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 fond comercial, luand in considerare, de asemenea, daca testul de depreciere a acoperit toate unitatile generatoare de numerar/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 unitati generatoare de numerar 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 Grupului cu previziunile analistilor si cele adoptate de alte societati internationale din domeniul petrolier;</li> </ul>



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<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 trei unitati generatoare de numerar identificate: Downstream, cu o valoare neta contabila a imobilizarilor corporale de 210 milioane USD, Rafinare, cu o valoare contabila neta a imobilizarilor corporale de 900 milioane USD si Petrochimie cu o valoare contabila neta a imobilizarilor corporale de 60 milioane USD.</p> <p>Testarea pentru depreciere a fondului comercial si a imobilizarilor corporale este importanta 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 sud-estul Europei.</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 Grupul Rompetrol Rafinare pentru testarea de depreciere a fondului comercial si a imobilizarilor corporale. Evaluarea noastra s-a axat pe estimarea ratei de actualizare folosite, pe analiza privind senzitivitatea valorilor recuperabile ale unitatilor generatoare de numerar la modificarile ipotezelor semnificative, precum si pe ipotezele-cheie aplicate la estimarea fluxurilor de numerar viitoare pentru unitatile generatoare de numerar 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 Grupului;</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 Grup cu privire la fondul comercial si imobilizarile corporale, incluzand testarea de depreciere aferenta.</p>
<p><b>Recuperabilitatea creantei privind impozitul pe profit amanat</b> Informatiile prezentate de Grupul Rompetrol Rafinare cu privire la creanta privind impozitul pe profitul amanat sunt incluse in Nota 13.</p>	
<p>Dupa cum este prezentat in nota 13 la situatiile financiare, la 31 decembrie 2018, Grupul a recunoscut o creanta de impozit pe profit amanat de 38 milioane USD, 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 de afaceri pe termen lung aplicate de</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 faptului 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>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 grup cu privire la creanta privind impozitul pe profit amanat.</p>
<p><b>Completitudinea si caracterul adecvat al provizioanelor pentru litigii</b> Informatiile prezentate de grupul Rompetrol Rafinare cu privire la litigii sunt incluse in Nota 28.</p>	
<p>Grupul este implicat 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 28 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 Grupului.</p>	<p>Procedurile noastre de audit au inclus, printre altele, obtinerea de confirmari de la avocatii externi ai Grupului care ofera asistenta cu privire la aceste cazuri, precum si documentatie suport de la departamentul juridic intern al Grupului, cu privire la stadiul acestor litigii. Am examinat procesele verbale ale Consiliilor de Administratie ale societatilor din grup 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 a analiza cazurile legale si estimarile efectuate de conducere.</p> <p>De asemenea, am evaluat caracterul adecvat al informatiilor prezentate cu privire la provizioane si datorii contingente rezultate din aceste actiuni legale.</p>



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Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment testing of goodwill and property, plant and equipment</b> Rompetro Rafinare Group's disclosures about goodwill and property, plant and equipment, including the related impairment, are included in Note 4, Note 5 and Note 6 respectively.</p>	
<p>Rompetro Rafinare Group is required to test, at least annually and when impairment indicators exist, the carrying amount of goodwill for impairment. As at 31 December 2018, the carrying value of goodwill is USD 83 million and is material to our audit. The goodwill impairment testing was performed at the level of one cash-generating unit (CGU) - Downstream, to which the respective goodwill was allocated.</p> <p>Property, plant and equipment (PPE) is also significant to our audit because of the magnitude of the balance sheet position of USD 1,235 million as at 31 December 2018. Furthermore, the management's assessment of impairment indicators for CGUs and individual assets respectively involves consideration of various sources of information, including factors related to the economic environment and industry specific factors.</p> <p>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 three CGUs identified: Downstream, with a PPE carrying value of USD 210 million, Refining with a PPE carrying value of USD 900 million and Petrochemicals with a PPE carrying value of USD 60 million, resulting in no impairment loss being recognised.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>• we analysed and evaluated the management's assessment of the existence of impairment indicators for property, plant and equipment and goodwill, 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;</li> <li>• we compared the actual production/sales volumes and costs in 2018 of each cash generating unit with the production/sales volumes and costs estimates in the budget prepared for 2018;</li> <li>• we compared the future short and long term oil and gas prices and product margins used in the Group's budgets to consensus analyst's forecasts and those adopted by other international oil companies;</li> <li>• we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance in prior years;</li> <li>• we involved our internal valuation specialists to assist us in evaluating the key assumptions and the methodologies used by Rompetrol Rafinare Group for the impairment testing of goodwill and 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 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</li> </ul>

Traducerea în limba engleză are doar scop informativ. Traducerea raportului trebuie citită împreună cu situațiile financiare, luate în ansamblu. În situațiile în care informațiile, punctele de vedere și opiniile sunt susceptibile de interpretare, versiunea originală în limba română a raportului nostru prevalează acestei traduceri.  
English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.



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<p><i>The impairment testing of goodwill and property, plant and equipment 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 South East Europe.</i></p>	<p><i>industry-specific economic environment, relevant available market information and the business plans of the Group.</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 the Group's disclosures about goodwill and property, plant and equipment, including the related impairment testing.</i></p>
<p><b>Recoverability of deferred tax assets</b> <i>Rompetro Rafinare Group's disclosures about deferred tax assets are included in Note 13.</i></p>	
<p><i>As presented in Note 13 to the financial statements, as at 31 December 2018, the Group recognized a net deferred tax asset of USD 38 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 Group's disclosures regarding deferred tax assets.</i></p>
<p><b>Completeness and appropriateness of provisions for litigations</b> <i>Rompetro Rafinare Group's disclosures about litigations are included in Note 28.</i></p>	
<p><i>The Group 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 28 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</i></p>	<p><i>Our audit procedures included, among others, obtaining legal confirmations from the Group's external lawyers advising on these matters and supporting documentation from the Group'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</i></p>



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<p><i>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 Group's reported financial performance and financial position.</i></p>	<p><i>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>
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#### Alte informatii Other information

Alte informatii includ Raportul Consiliului de Administratie, dar nu includ situatiile financiare consolidate 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 consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.*

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

*Our audit opinion on the consolidated 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 consolidate, responsabilitatea noastra este de a cita aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare consolidate 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.





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*In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidate**

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

Conducerea Grupului are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare consolidate in conformitate cu Standardele Internationale de Raportare Financiara adoptate de Uniunea Europeana, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare consolidate care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.

*Group Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.*

La intocmirea situatiilor financiare consolidate, conducerea este responsabila sa evalueze abilitatea Grupului 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 Grupul sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.

*In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Grupului.

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



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

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare consolidate, 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 consolidate.

*Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidate, 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 consolidated 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 Grupului.
- ▶ *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 Group's internal control.*



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- ▶ Evaluăm gradul de adecvare a politicilor contabile utilizate și rezonabilitatea estimărilor contabile și a prezentărilor aferente de informații realizate de către conducere.
- ▶ *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- ▶ Concluzionăm asupra caracterului adecvat al utilizării de către conducere a principiului continuității activității, și determinăm, pe baza probelor de audit obținute, dacă există o incertitudine semnificativă cu privire la evenimente sau condiții care ar putea genera îndoieli semnificative privind capacitatea Grupului de a-și continua activitatea. În cazul în care concluzionăm că există o incertitudine semnificativă, trebuie să atragem atenția, în raportul de audit, asupra prezentărilor aferente din situațiile financiare consolidate sau, în cazul în care aceste prezentări sunt neadecvate, să ne modificăm opinia. Concluziile noastre se bazează pe probele de audit obținute până la data raportului nostru de audit. Cu toate acestea, evenimente sau condiții viitoare pot determina ca Grupul să nu își mai desfășoare activitatea în baza principiului continuității activității.
- ▶ *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 Group'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 consolidated 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 Group to cease to continue as a going concern.*
- ▶ Evaluăm prezentarea, structura și conținutul general al situațiilor financiare consolidate, inclusiv al prezentărilor de informații, și măsura în care situațiile financiare consolidate reflectă tranzacțiile și evenimentele de bază într-o manieră care realizează prezentarea fidelă.
- ▶ *Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*
- ▶ Obținem suficiente probe de audit adecvate cu privire la informațiile financiare ale entităților sau activităților din cadrul Grupului pentru a exprima o opinie asupra situațiilor financiare consolidate. Suntem responsabili pentru îndrumarea, supravegherea și efectuarea auditului la nivelul grupului. Suntem singurii responsabili pentru opinia noastră de audit.
- ▶ *Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.*

Comunicăm persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate și programarea în timp a auditului, precum și constatările semnificative ale auditului, inclusiv orice deficiențe semnificative ale controlului intern, pe care le identificăm pe parcursul auditului nostru.



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*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 consolidate 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 consolidated 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 consolidate si raportul nostru de audit asupra acestora** **Reporting on Information Other than the Consolidated 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 consolidate 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 consolidate intocmite la data de 31 decembrie 2018 cu privire la Grup si la mediul acestuia, nu am identificat informatii eronate semnificative prezentate in Raportul Consiliului de Administratie.



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*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 consolidated 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 Group and its environment gained during our audit of the consolidated 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 Grupului de catre Adunarea Generala a Actionarilor la data de 13 aprilie 2018 pentru a audita situatiile financiare consolidate 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 Group by the General Meeting of Shareholders on April 13, 2018 to audit the consolidated 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 as 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 consolidate exprimata in acest raport este in concordanta cu raportul suplimentar adresat Comitetului de Audit al Grupului, pe care l-am emis in data de 14 martie 2019.

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



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

Nu am furnizat Grupului 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 Grup pe durata auditului.

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

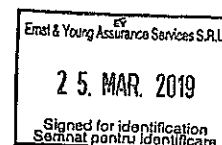
*No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.*

*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 SA**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**DECEMBER 31, 2018**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Prepared in accordance with International Financial Reporting Standards**  
As endorsed by the European Union (EU)  
**as at 31 December 2018**

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**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2018**

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

	Notes	December 31, 2018 USD	December 31, 2017 USD	December 31, 2018 RON	December 31, 2017 RON
Intangible assets	3	7,606,675	8,252,455	30,986,551	33,617,201
Goodwill	4	82,871,706	82,871,706	337,586,183	337,586,183
Property, plant and equipment	5	1,235,103,661	1,254,559,178	5,031,318,272	5,110,572,268
Available for sale investments	7	18,583	18,583	75,700	75,700
Long-term receivable		3,250,669	1,599,013	13,241,925	6,513,739
Deferred tax asset	13	<u>37,661,607</u>	<u>36,221,657</u>	<u>153,418,321</u>	<u>147,552,542</u>
<b>Total non current assets</b>		<b><u>1,366,512,901</u></b>	<b><u>1,383,522,592</u></b>	<b><u>5,566,626,952</u></b>	<b><u>5,635,917,633</u></b>
Inventories, net	8	292,898,693	342,623,825	1,193,152,116	1,395,712,414
Trade and other receivables	9	409,254,839	436,209,507	1,667,140,512	1,776,943,048
Derivative financial instruments	30.5	2,608,512	-	10,626,034	-
Cash and cash equivalents	10	<u>11,477,183</u>	<u>12,592,193</u>	<u>46,753,453</u>	<u>51,295,557</u>
<b>Total current assets</b>		<b><u>716,239,227</u></b>	<b><u>791,425,525</u></b>	<b><u>2,917,672,115</u></b>	<b><u>3,223,951,019</u></b>
<b>TOTAL ASSETS</b>		<b><u>2,082,752,128</u></b>	<b><u>2,174,948,117</u></b>	<b><u>8,484,299,067</u></b>	<b><u>8,859,868,652</u></b>
Share capital	11	1,463,323,897	1,463,323,897	5,960,996,227	5,960,996,227
Share premium	11	74,050,518	74,050,518	301,652,190	301,652,190
Revaluation reserve, net	11	140,206,556	146,431,777	571,145,427	596,504,487
Other reserves	11	(9,156,421)	(4,153,668)	(37,299,598)	(16,920,382)
Other reserves - Hybrid loan	11	1,059,285,995	1,059,285,995	4,315,107,429	4,315,107,428
Effect of transfers with equity holders	11	(596,832,659)	(596,832,659)	(2,431,257,520)	(2,431,257,520)
Accumulated losses		(1,444,804,971)	(1,473,246,436)	(5,885,557,530)	(6,001,416,682)
Current year result		(27,242,482)	19,552,126	(110,974,975)	79,647,541
<b>Equity attributable to equity holders of the parent</b>		<b><u>658,830,433</u></b>	<b><u>688,411,550</u></b>	<b><u>2,683,811,650</u></b>	<b><u>2,804,313,289</u></b>
Non-Controlling interest		16,534,151	15,934,422	67,353,515	64,910,459
<b>Total equity</b>		<b><u>675,364,584</u></b>	<b><u>704,345,972</u></b>	<b><u>2,751,165,165</u></b>	<b><u>2,869,223,748</u></b>
Long-term borrowings from banks	12	224,103,204	-	912,906,812	-
Hybrid loans - interest portion	11	17,009,920	14,687,203	69,291,610	59,829,790
Deferred tax liabilities	13	4,149,508	3,715,861	16,903,436	15,136,931
Provisions	17	85,664,505	85,001,042	348,962,929	346,260,245
Other non-current liabilities		<u>195,757</u>	<u>207,676</u>	<u>797,436</u>	<u>845,989</u>
<b>Total non-current liabilities</b>		<b><u>331,122,894</u></b>	<b><u>103,611,782</u></b>	<b><u>1,348,862,223</u></b>	<b><u>422,072,955</u></b>
Trade and other payables	14	916,434,940	966,666,960	3,733,189,375	3,937,814,535
Contract liabilities	15	25,947,213	-	105,698,567	-
Derivative financial instruments	30.5	76,580	48,387	311,956	197,109
Short-term borrowings from shareholders and related parties	16	107,551,244	176,211,784	438,120,746	717,816,323
Short-term borrowings from banks	16	26,254,673	224,063,232	106,951,035	912,743,982
<b>Total current liabilities</b>		<b><u>1,076,264,650</u></b>	<b><u>1,366,990,363</u></b>	<b><u>4,384,271,679</u></b>	<b><u>5,568,571,949</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>2,082,752,128</u></b>	<b><u>2,174,948,117</u></b>	<b><u>8,484,299,067</u></b>	<b><u>8,859,868,652</u></b>

The consolidated financial statements have been approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of shareholders on April 24, 2019 by:

**SADUOKHAS MERALIYEV**  
**PRESIDENT of the BOARD of DIRECTORS**

**YEDIL UTEKOV**  
**GENERAL MANAGER**

**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

The accompanying notes from 1 to 31 are an integral part of these consolidated financial statements.  
 English translation is for information purposes only. Romanian language text is the official text for submission.

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED INCOME STATEMENT**  
**for the year ended 31 December 2018**

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

	Notes	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Revenues from contracts with customers	18	3,980,543,368	3,093,007,328	16,215,141,464	12,599,674,651
Cost of sales	19	(3,724,419,488)	(2,786,630,756)	(15,171,795,227)	(11,351,619,048)
<b>Gross profit</b>		<b><u>256,123,880</u></b>	<b><u>306,376,572</u></b>	<b><u>1,043,346,237</u></b>	<b><u>1,248,055,603</u></b>
Selling, general and administrative expenses, including logistic costs	20	(211,912,916)	(190,883,469)	(863,248,455)	(777,582,899)
Other operating income	21	65,537,105	801,814	266,971,951	3,266,270
Other operating expenses	21	(84,946,746)	(58,754,223)	(346,039,065)	(239,341,203)
<b>Operating profit</b>		<b><u>24,801,323</u></b>	<b><u>57,540,694</u></b>	<b><u>101,030,668</u></b>	<b><u>234,397,771</u></b>
Finance cost	22	(58,924,170)	(53,227,537)	(240,033,499)	(216,827,695)
Finance income	22	12,486,730	20,527,605	50,865,943	83,621,252
Foreign exchange loss, net	22	(6,088,121)	(584,549)	(24,800,569)	(2,381,219)
<b>Profit before income tax</b>		<b><u>(27,724,238)</u></b>	<b><u>24,256,213</u></b>	<b><u>(112,937,457)</u></b>	<b><u>98,810,109</u></b>
Income tax	23	49,050	(3,550,756)	199,810	(14,464,360)
<b>Profit for the year</b>		<b><u>(27,675,188)</u></b>	<b><u>20,705,457</u></b>	<b><u>(112,737,647)</u></b>	<b><u>84,345,749</u></b>
<i>Attributable to:</i>					
Equity holders of the parent		(27,242,482)	19,552,126	(110,974,975)	79,647,541
Non-Controlling interests		(432,706)	1,153,331	(1,762,672)	4,698,208
<b>Earnings per share (US cents/share)</b>					
Basic	26	(0.062)	0.044	(0.253)	0.179

The consolidated financial statements have been approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of shareholders on April 24, 2019 by:

**SADUOKHAS MERALIYEV**  
**PRESIDENT of the BOARD of DIRECTORS**

**YEDIL UTEKOV**  
**GENERAL MANAGER**

**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**for the year ended 31 December 2018**

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
<b>Net Gain for the year</b>	<b>(27,675,188)</b>	<b>20,705,457</b>	<b>(112,737,647)</b>	<b>84,345,749</b>
<b>Other comprehensive income</b>				
<i>Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):</i>				
Hedge reserve	-	312,211	-	1,271,823
<b>Net other comprehensive income to be reclassified to income/(loss) statement in subsequent periods</b>	<b>-</b>	<b>312,211</b>	<b>-</b>	<b>1,271,823</b>
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</i>				
Actuarial losses on retirement benefits	(5,002,753)	(1,013,730)	(20,379,215)	(4,129,531)
Revaluation of buildings category in property plant and equipment	3,726,620	174,323,544	15,180,759	710,124,389
Deferred income tax related to revaluation, recognized in equity	(581,645)	(27,891,767)	(2,369,389)	(113,619,902)
<b>Net other comprehensive income/(loss) not to be reclassified to income statement in subsequent periods</b>	<b>(1,857,778)</b>	<b>145,418,047</b>	<b>(7,567,845)</b>	<b>592,374,956</b>
<b>Total other comprehensive income/ (loss) for the year, net of tax</b>	<b>(1,857,778)</b>	<b>145,730,258</b>	<b>(7,567,845)</b>	<b>593,646,779</b>
<b>Total comprehensive result for the year, net of tax</b>	<b>(29,532,966)</b>	<b>166,435,715</b>	<b>(120,305,492)</b>	<b>677,992,528</b>
<i>Attributable to:</i>				
Equity holders of the parent	(30,132,695)	165,282,384	(124,511,219)	673,294,320
Non-Controlling interests	599,729	1,153,331	4,205,727	4,698,208
<b>Total comprehensive result for the year</b>	<b>(29,532,966)</b>	<b>166,435,715</b>	<b>(120,305,492)</b>	<b>677,992,528</b>

The consolidated financial statements have been approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of shareholders on April 24, 2019 by:

**SADUOKHAS MERALIYEV**  
**PRESIDENT of the BOARD of DIRECTORS**

**YEDIL UTEKOV**  
**GENERAL MANAGER**

**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2018**

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

	<b>2018 USD</b>	<b>2017 USD</b>	<b>2018 RON</b>	<b>2017 RON</b>
<b>Result before income tax</b>	<b>(27,724,238)</b>	<b>24,256,213</b>	<b>(112,937,457)</b>	<b>98,810,109</b>
<i>Adjustments for:</i>				
Depreciation and amortisation	107,143,081	96,061,994	436,458,055	391,318,139
Provisions for receivables and inventories (incl write-off)	18,145,594	2,268,436	73,917,892	9,240,701
Impairment for property, plant and equipment (incl write-off)	(8,941,924)	1,037,558	(36,425,822)	4,226,596
Loss on revaluation of tangible assets	11,174,920	44,981,492	45,522,154	183,236,606
Provision for environmental and other liabilities	-	10,297,478	-	41,947,806
Restructuring and retirement benefit provisions	26,692	264,965	108,733	1,079,361
Late payment interest	243,565	99,212	992,186	404,150
Other financial income	(355,679)	(486,529)	(1,448,894)	(1,981,925)
Interest income	(12,131,051)	(20,041,076)	(49,417,049)	(81,639,327)
Interest expense and bank charges	53,650,765	51,177,832	218,551,756	208,478,016
Gain on sale or disposal of property, plant and equipment	(347,156)	(376,590)	(1,414,175)	(1,534,077)
Unrealised foreign exchange (gain)/loss	(5,308,731)	12,605,676	(21,625,647)	51,350,482
<b>Cash from operations before working capital changes</b>	<b>135,575,838</b>	<b>222,146,661</b>	<b>552,281,732</b>	<b>904,936,637</b>
<i>Net working capital changes:</i>				
Receivables and prepayments	19,720,843	(244,498,806)	80,334,828	(995,990,335)
Inventories	35,113,058	(113,776,397)	143,036,553	(463,479,531)
Trade and other payables and contract liabilities (including payables variation for capital expenditures)	(11,836,300)	276,373,352	(48,216,348)	1,125,834,489
<b>Change in working capital</b>	<b>42,997,601</b>	<b>(81,901,851)</b>	<b>175,155,033</b>	<b>(333,635,377)</b>
<b>Income tax paid</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash (paid)/received for derivatives, net</b>	<b>(2,580,319)</b>	<b>42,808</b>	<b>(10,511,187)</b>	<b>174,383</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>175,993,120</b>	<b>140,287,618</b>	<b>716,925,578</b>	<b>571,475,643</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(83,039,199)	(84,027,084)	(338,268,483)	(342,292,731)
Purchase of intangible assets	(2,769,207)	(1,333,129)	(11,280,643)	(5,430,634)
Proceeds from sale of property, plant and equipment	495,677	451,011	2,019,190	1,837,238
<b>Net cash used in investing activities</b>	<b>(85,312,729)</b>	<b>(84,909,202)</b>	<b>(347,529,936)</b>	<b>(345,886,127)</b>
<b>Cash flows from financing activities</b>				
Cash pooling movement	(7,897,873)	52,782,953	(32,172,775)	215,016,637
Long - term loans repaid to banks	(15,611,376)	-	(63,594,501)	-
Short - term loans (repaid to)/ received from related parties	(69,873,201)	(82,004,189)	(284,635,472)	(334,052,264)
Short - term loans (repaid to)/ received from banks, net	42,005,210	9,880,159	171,112,423	40,247,816
Interest and bank charges paid, net	(40,418,161)	(39,255,444)	(164,647,421)	(159,910,977)
<b>Net cash from / (used) in financing activities</b>	<b>(91,795,401)</b>	<b>(58,596,521)</b>	<b>(373,937,746)</b>	<b>(238,698,788)</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>	<b>(1,115,010)</b>	<b>(3,218,105)</b>	<b>(4,542,104)</b>	<b>(13,109,272)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>12,592,193</b>	<b>15,810,298</b>	<b>51,295,557</b>	<b>64,404,829</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>11,477,183</b>	<b>12,592,193</b>	<b>46,753,453</b>	<b>51,295,557</b>

The consolidated financial statements have been approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of shareholders on April 24, 2019 by:

**SADUOKHAS MERALIYEV**  
**PRESIDENT of the BOARD of DIRECTORS**

**YEDIL UTEKOV**  
**GENERAL MANAGER**

**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2018**

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

**Amount in USD**

	31-Dec-16	1,463,323,897	74,050,518	(1,473,246,436)	-	-	-	(596,832,659)	996,547,851	463,843,171	14,781,091	478,624,262
	31-Dec-17	1,463,323,897	74,050,518	(1,453,694,310)	174,323,544	(27,891,767)	(27,891,767)	(596,832,659)	1,055,132,327	688,411,550	15,934,422	704,345,972
	Restated balance at December 31, 2017	1,463,323,897	74,050,518	(1,454,730,680)	174,323,544	(27,891,767)	(27,891,767)	(596,832,659)	1,055,132,327	687,375,180	15,934,422	703,309,602
Net profit for 2017				19,552,126						19,552,126	1,153,331	20,705,457
Retirement benefit												(1,013,730)
Hedging reserves												312,211
Effect of change in accounting policies-property plant and equipment					174,323,544	(27,891,767)	(27,891,767)			312,211		146,431,777
<b>Total other comprehensive income</b>					174,323,544	(27,891,767)	(27,891,767)		(701,519)	145,730,258		146,431,777
<b>Total comprehensive income</b>				19,552,126	174,323,544	(27,891,767)	(27,891,767)		(701,519)	165,282,384	1,153,331	166,435,715
Hybrid loan									59,285,995	59,285,995		59,285,995
Effect of applying IFRS 9				(1,453,694,310)	174,323,544	(27,891,767)	(27,891,767)	(596,832,659)	1,055,132,327	688,411,550	15,934,422	704,345,972
<b>Restated balance at December 31, 2017</b>		<b>1,463,323,897</b>	<b>74,050,518</b>	<b>(1,454,730,680)</b>	<b>174,323,544</b>	<b>(27,891,767)</b>	<b>(27,891,767)</b>	<b>(596,832,659)</b>	<b>1,055,132,327</b>	<b>687,375,180</b>	<b>15,934,422</b>	<b>703,309,602</b>
Net loss for 2018				(27,242,482)						(27,242,482)	(432,706)	(27,675,188)
Transfer of realized revaluation reserve to Retained Earnings				9,925,709								
Deferred tax related to realized revaluation reserve transferred to Retained Earnings					(9,925,709)							
Retirement benefit							1,587,948			1,587,948		1,587,948
Revaluation of buildings category in property plant and equipment									(5,002,753)	(5,002,753)		(5,002,753)
Deferred income tax related to revaluation buildings category in property plant and equipment, recognised in equity									2,497,531	2,497,531	1,229,089	3,726,620
<b>Total other comprehensive income</b>				(17,316,773)	2,497,531	(384,991)	(384,991)			(384,991)	(196,654)	(581,645)
<b>Total comprehensive income</b>				(1,472,047,453)	166,895,366	(17,316,773)	(17,316,773)	(596,832,659)	1,050,129,574	658,830,433	16,534,151	675,364,584

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**YEDIL UTEKOV**  
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**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

**ROMPETROL RAFINARE SA**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2018**

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

**Amount in RON**

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred income tax related to revaluation, recognized in equity	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2016	5,960,996,227	301,652,190	(6,001,416,682)	-	-	(2,431,257,520)	4,059,537,326	1,889,511,541	60,212,252	1,949,723,793
Net profit for 2017	-	-	79,647,541	-	-	-	-	79,647,541	4,698,207	84,345,748
Retirement benefit	-	-	-	-	-	-	(4,129,531)	(4,129,531)	-	(4,129,531)
Hedging reserves	-	-	-	-	-	-	1,271,823	1,271,823	-	1,271,823
Effect of change in accounting policies-property plant and equipment	-	-	-	710,124,389	(113,619,902)	-	-	596,504,487	-	596,504,487
Total other comprehensive income	-	-	-	710,124,389	(113,619,902)	-	(2,857,708)	593,646,779	-	593,646,779
Total comprehensive income	-	-	79,647,541	710,124,389	(113,619,902)	-	(2,857,708)	673,294,320	4,698,207	677,992,527
Hybrid loan	-	-	-	-	-	-	241,507,428	241,507,428	-	241,507,428
December 31, 2017	5,960,996,227	301,652,190	(5,921,769,141)	710,124,389	(113,619,902)	(2,431,257,520)	4,298,187,046	2,804,313,289	64,910,459	2,869,223,748
Effect of applying IFRS 9	-	-	(4,221,757)	-	-	-	-	(4,221,757)	-	(4,221,757)
Restated balance at December 31, 2017	5,960,996,227	301,652,190	(5,925,990,898)	710,124,389	(113,619,902)	(2,431,257,520)	4,298,187,046	2,800,091,532	64,910,459	2,865,001,991
Net loss for 2018	-	-	(110,974,975)	-	-	-	-	(110,974,975)	(1,762,671)	(112,737,646)
Transfer of realized revaluation reserve to Retained Earnings	-	-	40,433,368	(40,433,368)	-	-	-	-	-	-
Deferred tax related to realized revaluation reserve transferred to Retained Earnings	-	-	-	-	6,468,665	-	(20,379,215)	(20,379,215)	-	6,468,665
Retirement benefit	-	-	-	-	-	-	-	-	-	-
Revaluation of buildings category in property plant and equipment	-	-	-	10,173,942	-	-	-	10,173,942	5,006,817	15,180,759
Deferred income tax related to revaluation buildings category in property plant and equipment, recognised in equity	-	-	-	-	(1,568,299)	-	-	(1,568,299)	(801,090)	(2,369,389)
Total other comprehensive income	-	-	(70,541,607)	10,173,942	(1,568,299)	-	(20,379,215)	(11,773,572)	4,205,727	(7,567,845)
December 31, 2018	5,960,996,227	301,652,190	(5,996,532,505)	(30,259,426)	4,900,366	(2,431,257,520)	4,277,807,831	(116,279,882)	2,443,056	(113,836,826)
				679,864,963	(108,719,536)			2,683,811,650	67,353,515	2,751,165,165

The consolidated financial statements have been approved on March 20<sup>th</sup>, 2019 and submitted for approval by the General Assembly of shareholders on April 24, 2019 by:

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**MIRCEA STEFAN STANESCU**  
**FINANCE MANAGER**

Prepared by,

**Cristina Ana Dica**  
**Reporting Manger**

**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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**1. GENERAL**

Romp petrol Rafinare S.A. (hereinafter referred to as "the Parent Company" or "the Company" or "the Parent" or "RRC") is a company incorporated under Romanian law. The Parent Company operates Petromidia and Vega refineries. Petromidia refinery, located on the Black Sea coast, processes imported crude oil and produces E.U. standard motor fuels, other petroleum products and certain petrochemicals. Petromidia refinery was designed and built during 1975-1977 and was further modernized in the early 1990's and from 2005 to 2012.

Romp petrol Rafinare S.A and its subsidiaries (hereinafter referred to as "the Group") are involved in refining of oil, production of petrochemicals and downstream activities, and have all production facilities located in Romania (see Note 7.a). The number of employees of the Group at the end of 2018 and 2017 was 1,900 and 1,887 respectively.

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective as of December 31, 2018, as endorsed by the European Union ("EU").

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments and buildings and constructions that have been measured at fair value.

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

**b) Going concern**

The financial statements of the Group are prepared on a going concern basis. As at December 31, 2018 and 2017 the Group reported net assets including non-controlling interest, of USD 675.4 million and USD 704.3 million respectively. The Group reported for the year ended December 31, 2018 a loss of USD 27.2 million and for the year ended December 31, 2017 reported a profit of USD 19.5 million respectively. However, the Group has recorded positive cash flow from operations of USD 176 million in 2018 and excluding amounts due from / to related parties it has a positive net current assets as of 31 December 2018.

The Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy confirming the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group.

Based on the Group's budget for 2019, its Long-Term Development Strategy and other matters mentioned above, Group Management considers that the preparation of the financial statements on a going concern basis is appropriate.

**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

**c) Changes in accounting policies**

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2018:

- **IFRS 9 Financial Instruments**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

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

Overall, the Group had no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group had an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Group will implement changes in classification of certain financial instruments.

**a) Classification and measurement**

The Group had no 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 Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 does not have a significant impact on Group's financial statements.

**c) Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses on all trade receivables. The Group has determined after assessment of major categories of trade receivables that the loss allowance increased by USD 1 million as at January 1, 2018.



**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

• **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.

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 Group has adopted the new standard on the required effective date using the modified retrospective method. During 2017 and 2018, the Group performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

The Group is involved in refining and petrochemicals, wholesale and retail of petroleum products and related services (oilfield, logistics, maintenance, quality control).

The Group analyzed the main revenue streams which comprise: sales of petroleum products and petrochemicals, sales of merchandise, sales of utilities, transportation fees and other services under the main business segments: Downstream (retail and wholesale), 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 Group concluded that IFRS 15 has no significant impact compared with previous revenue recognition.

Advances from customers of USD 25.95 mill previously presented as trade and other payables, have been reclassified as contract liabilities as at 31 December 2018 (see Note 15).

• **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 Group 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 Group level from application of this standard.

**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

- **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 Group 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 Group'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**

The Group 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.  
The Group will elect to apply the modified retrospective approach as a transitional method. Under this approach, the Group does not restate comparative information.  
Consequently, the date of initial application is the first day of the annual reporting period in which the Group first applies the requirements of the new standard.  
At the date of initial application of new leases standard, the Group will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity as of 1 January 2019.  
The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.  
Group 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.

**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

**Transition to IFRS 16**

The Group will recognize a lease liability and a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee will measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019; and the right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has entered into operating leases on plots, gas stations, vehicles, administrative buildings and other assets. Operating lease commitments are disclosed in Note 29.

During 2018, the Group 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>	USD
Property, plant and equipment (right-of-use assets)	34,420,935
<u>Liabilities</u>	
Lease liabilities	39,483,112
<b><u>Estimated impact on equity</u></b>	<b><u>(5,062,177)</u></b>

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

<b>The estimated impact on the statement of profit or loss (increase/(decrease)) for 2019:</b>	USD
Depreciation expense (included in Cost of Sales)	621,108
Depreciation expense (included in Selling)	3,002,160
Depreciation expense (included in Administrative expenses)	109,180
Operating lease expense (included in Cost of Sales)	(917,040)
Operating lease expense (included in Selling)	(4,725,596)
Operating lease expense (included in Administrative expenses)	(115,659)
<b><u>Operating profit</u></b>	<b><u>2,025,847</u></b>
Finance costs	2,164,399
<b><u>Estimated impact on result for the year</u></b>	<b><u>(138,552)</u></b>

Due to the adoption of IFRS 16, the Group's 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.

• **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at Group level from application of this standard.

**ROMPETROL RAFINARE SA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))*

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

- **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 at Group level from application of this standard.
- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**  
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at Group level from application of this standard.
- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**  
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed there is no material impact at Group level from application of this standard.
- **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 Amendments require entities to use updated 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 there is no material impact at Group level from application of this amendments.
- **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.
- **IFRS 3: Business Combinations (Amendments)**  
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at Group level from application of this standard.

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

- **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 Group 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. Management has assessed there is no material impact at Group level from application of these amendments.
  - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - **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.

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

**e) Foreign currency translation**

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

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

Monetary assets and liabilities

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

Non-monetary assets and liabilities

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

Consolidated statement of income

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

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

Other matters

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

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

Romanian lei translation for information purposes basis

Amounts in Romanian lei are provided for information purpose basis only and are translated by multiplying the values in USD with the 31 December 2018 closing exchange rate published by Romanian national Bank of RON 4.0736= USD 1, for both 2018 and 2017 amounts.

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

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

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

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

The matters presented below are considered to be the most important in understanding the judgments that are involved in preparing these consolidated financial statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that can lead to material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

- Impairment of Goodwill on acquisitions

The Group's impairment test for goodwill is based on fair value less costs to sell calculations that use a discounted cash flow model for the CGU to which Goodwill has been allocated. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to undertake. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes (Note 4).

- Impairment of non- financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the carrying amounts for major property, plant and equipment are tested for impairment. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is higher of fair value less costs to sell, and value in use determined as the amount of estimated discounted future cash flows. Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand and product margins. Other factors that can lead to changes in estimates include restructuring plans and variation in regulatory environments. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 6.

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

- Provision for environmental liability

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

Further details on provision for environmental liability are provided in Note 17.

- Deferred tax assets

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

Further details on deferred tax assets and for those losses carried forward for which deferred tax assets has not been recognized are provided in Notes 13 and 23.

- Carrying value of trade and other receivables

The Group 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 Group 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 Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

- Carrying value of inventories

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

- Provision for litigations

The Group analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the case, the expected claim to be paid and the expected timing of the payments. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provisions relating to litigations are provided in Notes 17, 21 and 28.



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

**g) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2018.

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

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

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

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

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

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

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

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

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

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

**h) Business combinations and goodwill**

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

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

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

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

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

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

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

**i) Financial instruments**

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

*i. Financial assets*

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortized 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 Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group 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 Group 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.

In order for a financial asset to be classified and measured at amortized 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 Group'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 recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

**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 amortized 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 recognized in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized 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 derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

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

Or

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

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

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 Group could be required to repay.

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

**Impairment of financial assets**

The Group recognizes 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 Group 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 recognized 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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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 Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*ii. Financial liabilities*

**Initial recognition and measurement**

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

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

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

**Subsequent measurement**

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

- Financial liabilities at fair value through profit or loss
- Loans and borrowings at amortized cost

**Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

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

*iii. Offsetting of financial instruments*

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

**j) Property, plant and equipment**

Property, plant and equipment of the Company are stated at cost less cumulative depreciation, except for buildings that are periodically (not later than 5 years) revalued and booked at fair value.

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

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

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

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

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

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

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

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

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

Buildings and other constructions	10 to 100 years
Storage tanks	20 to 30 years
Tank cars	25 years
Machinery and other equipment	3 to 20 years
Gas pumps	8 to 12 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Computers	3 years

Following the change in the accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revaluated as at December 31, 2017. The remaining life utilization were estimated by the authorized appraiser based on ANEVAR's Assessment Guide GEV 500 (in accordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018. 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 Group 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 held under finance leases are recorded in the statement of financial position and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

**k) Intangible assets**

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

Intangible assets consist of software and licenses and are amortized on a straight-line basis over 3 to 5 years.

Development costs for specific projects which are reasonably anticipated to be recovered through commercial activity as well as expenditure on acquired computer software licenses are capitalized and amortized using the straight-line method over their useful lives, generally 3 years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programs are expensed as incurred.

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

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

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

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

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

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

*Goodwill*

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

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

**m) Provisions**

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

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

Additional comments on the following specific liabilities are:

- *Environmental liabilities*

Environmental expenditure that relates to current or future revenues is expensed or capitalized as appropriate. Expenditure that relates to an existing condition caused by past operations and that does not contribute to current or future earnings is expensed.

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

The Group has an environmental policy which complies with existing legislation and any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Group has set up a monitoring system in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any known future environmental requirements.

The above-mentioned expenses are estimated based on the relevant environmental studies.

Liabilities for environmental remediation costs are recognized when environmental assessments or clean-ups are probable, and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

**n) Leases**

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

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

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

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

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

**o) Inventories**

Inventories of raw material, petroleum products, including work-in-process are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, minus the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

**p) Trade receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional. Trade receivables that do not contain a significant financing component or for which the Group 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.



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

**q) Cash and cash equivalents**

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

**r) Revenue 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 Group expects to be entitled in exchange for those goods or services. The normal credit term is 30 to 90 days upon delivery.

In recognizing revenue, the Group 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) recognizing revenue at (or during) performance of obligation.

*(i) Variable consideration*

If the consideration in a contract includes a variable amount, the Group 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 recognized 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 Group 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 Group 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 Group then applies the requirements on constraining estimates of variable consideration and recognizes a refund liability for the expected future rebates.

*(iii) Significant financing component*

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group 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 Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

**Trade receivables**

A receivable represents the Group'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

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

financial assets in section i) Financial instruments – initial recognition and subsequent measurement and section p) Trade receivables.

**Contract liabilities**

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

**s) Interest bearing loans and borrowings**

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

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

**t) Borrowings costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All the other costs are expensed in the period they occur.

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

**u) Retirement benefit costs**

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

Under collective labor agreements in certain of the Group's entities, employees are entitled to specified retirement benefits, payable on retirement, if they are employed with these entities at the date of their retirement. These amounts are estimated as of the reporting date based on the following information: applicable benefits provided in the agreement; the number of employees with the relevant Group entities; and actuarial assumptions on future liabilities. The defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the income statement. All actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur for all defined benefit plans.

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

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

**v) Taxes**

- *Current income tax*

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

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

- *Deferred tax*

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

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

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

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

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

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

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

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

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

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

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

*- Sales tax*

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**w) Dividends**

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

**x) Foreign Currency Transactions**

The Group translates its foreign currency transactions and balances into functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of transaction. Exchange rate differences arising on the settlement of monetary assets and liabilities or on reporting them at rates different from those at which they were initially recorded during the period or reported in the previous financial statements are recognized in the consolidated income statement in the period they arise.

**y) Derivative Financial Instruments**

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

The use of financial derivatives is governed by the Group's policies approved by board of directors, which provide written principles on the use of financial derivatives.

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

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 recognized asset or liability or an unrecognized 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment

At the inception of a hedge relationship, the Group 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.

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**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 Group 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 Group 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 Group actually hedges and the quantity of the hedging instrument that the Group 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 Group 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 recognized 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 recognized in the statement of profit or loss as Cost of Sales. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss (see note 19).

*Cash Flow Hedge*

The Group 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 Group's refinery margin (difference between the purchase price of crude oil and the selling price of finished products). To reduce this volatility, the Group 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 recognized in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. Amounts recognized 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.

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

**z) Emission Rights**

CO2 emission rights quota are allocated to the Group's refining and petrochemicals operations. For the period 2013-2020 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. Rompetrol Rafinare SA received its quota allocation for 2018 and the one for 2019 has been received at the end of February 2019. The Group accounts for the liability resulting from generating of these emissions using the net liability method. The actual emissions are not expected to exceed the certificates which the group will have in its accounts in 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 group companies. Income is recognized only when excess certificates are sold on the market.

**aa) Fair value measurement**

The Group 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 Group.

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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (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 Group 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.

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

**ab) Current versus non-current classification**

The Group 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 realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized 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 Group classifies all other liabilities as non-current.

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

**ac) Contingencies**

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

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

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**3. INTANGIBLE ASSETS**

**Amounts in USD**

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<b>Cost</b>				
Opening balance as of January 1, 2017	<u>33,458,411</u>	<u>38,771,280</u>	<u>4,022,352</u>	<u>76,252,043</u>
Additions	441,718	33,165	858,246	1,333,129
Transfers from CIP	37,861	96,565	(134,426)	-
Transfers and reclassifications*	<u>735,252</u>	<u>275,304</u>	<u>16,365</u>	<u>1,026,921</u>
Closing balance as of December 31, 2017	<u>34,673,242</u>	<u>39,176,314</u>	<u>4,762,537</u>	<u>78,612,093</u>
Additions	159,437	3,241	2,606,529	2,769,207
Transfers from CIP	871,053	1,913	(872,966)	-
Transfers and reclassifications*	-	-	(2,089,094)	(2,089,094)
Closing balance as of December 31, 2018	<u>35,703,732</u>	<u>39,181,468</u>	<u>4,407,006</u>	<u>79,292,206</u>
<b>Accumulated amortization</b>				
Opening balance as of January 1, 2017	(32,909,484)	(35,553,417)	(523,380)	(68,986,281)
Charge for the year	(615,276)	(758,081)	-	(1,373,357)
Accumulated amortization of disposals	-	-	-	-
Closing balance as of December 31, 2017	<u>(33,524,760)</u>	<u>(36,311,498)</u>	<u>(523,380)</u>	<u>(70,359,638)</u>
Charge for the year	(748,232)	(577,661)	-	(1,325,893)
Closing balance as of December 31, 2018	<u>(34,272,992)</u>	<u>(36,889,159)</u>	<u>(523,380)</u>	<u>(71,685,531)</u>
<b>Net book value</b>				
As of December 31, 2017	<u>1,148,482</u>	<u>2,864,816</u>	<u>4,239,157</u>	<u>8,252,455</u>
As of December 31, 2018	<u>1,430,740</u>	<u>2,292,309</u>	<u>3,883,626</u>	<u>7,606,675</u>

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

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

**Amounts in RON**

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
<b>Cost</b>				
Opening balance as of January 1, 2017	<u>136,296,183</u>	<u>157,938,686</u>	<u>16,385,453</u>	<u>310,620,322</u>
Additions	1,799,382	135,101	3,496,151	5,430,634
Transfers from CIP	154,231	393,367	(547,598)	-
Transfers and reclassifications*	<u>2,995,123</u>	<u>1,121,478</u>	<u>66,665</u>	<u>4,183,266</u>
Closing balance as of December 31, 2017	<u>141,244,919</u>	<u>159,588,632</u>	<u>19,400,671</u>	<u>320,234,222</u>
Additions	649,483	13,203	10,617,957	11,280,643
Transfers from CIP	3,548,322	7,793	(3,556,115)	-
Transfers and reclassifications*	-	-	(8,510,135)	(8,510,135)
Closing balance as of December 31, 2018	<u>145,442,724</u>	<u>159,609,628</u>	<u>17,952,378</u>	<u>323,004,730</u>
<b>Accumulated amortization</b>				
Opening balance as of January 1, 2017	(134,060,074)	(144,830,399)	(2,132,041)	(281,022,514)
Charge for the year	(2,506,388)	(3,088,119)	-	(5,594,507)
Accumulated amortization of disposals	-	-	-	-
Closing balance as of December 31, 2017	<u>(136,566,462)</u>	<u>(147,918,518)</u>	<u>(2,132,041)</u>	<u>(286,617,021)</u>
Charge for the year	(3,047,998)	(2,353,160)	-	(5,401,158)
Closing balance as of December 31, 2018	<u>(139,614,460)</u>	<u>(150,271,678)</u>	<u>(2,132,041)</u>	<u>(292,018,179)</u>
<b>Net book value</b>				
As of December 31, 2017	<u>4,678,457</u>	<u>11,670,114</u>	<u>17,268,630</u>	<u>33,617,201</u>
As of December 31, 2018	<u>5,828,264</u>	<u>9,337,950</u>	<u>15,820,337</u>	<u>30,986,551</u>



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**4. GOODWILL**

The carrying value of goodwill as of 31 December 2018 and 2017 was USD 82,871,706 (RON: 337,586,183).

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

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

**Impairment test**

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2018 on the Downstream Romania cash generating units ("CGU"). Based on the impairment test no impairment has been identified. For further details see Note 6.

**5. PROPERTY, PLANT AND EQUIPMENT**

**Amounts in USD**

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost</i>						
<b>As of January 1, 2017</b>	<b>70,158,567</b>	<b>908,285,818</b>	<b>1,192,084,752</b>	<b>125,139,685</b>	<b>103,305,396</b>	<b>2,398,974,218</b>
Acquisitions	-	2,077	416,670	470,497	83,137,840	84,027,084
Transfers from CIP	-	16,370,701	42,382,143	4,930,107	(63,682,951)	-
Revaluation adjustment	-	129,342,052	-	-	-	129,342,052
Disposals	-	(605,372)	(2,349,942)	(10,727,083)	(836)	(13,683,233)
Transfers due to revaluation adjustment	-	(382,107,113)	-	-	-	(382,107,113)
Transfers and reclassifications*	-	-	(1,641,542)	(1,439,050)	(115,663)	(3,196,255)
<b>As of December 31, 2017</b>	<b>70,158,567</b>	<b>671,288,163</b>	<b>1,230,892,081</b>	<b>118,374,156</b>	<b>122,643,786</b>	<b>2,213,356,753</b>
Additions	(154,045)	31,625	229,795	131,222	82,800,602	83,039,199
Transfers from CIP	-	16,830,735	58,046,082	6,653,328	(81,530,145)	-
Revaluation adjustment	-	(7,448,300)	-	-	-	(7,448,300)
Disposals	(135,986)	(5,850)	(957,049)	(512,576)	-	(1,611,461)
Transfers due to revaluation adjustment	-	(14,589,987)	-	-	-	(14,589,987)
Transfers and reclassifications*	-	8,645,976	(8,679,278)	36,672	1,977,367	1,980,737
<b>As of December 31, 2018</b>	<b>69,868,536</b>	<b>674,752,362</b>	<b>1,279,531,631</b>	<b>124,682,802</b>	<b>125,891,610</b>	<b>2,274,726,941</b>
<i>Accumulated depreciation &amp; impairment</i>						
<b>As of January 1, 2017</b>	<b>(78,373)</b>	<b>(485,043,631)</b>	<b>(648,121,975)</b>	<b>(98,307,717)</b>	<b>(29,275,609)</b>	<b>(1,260,827,305)</b>
Charge for the year	-	(27,057,742)	(61,735,456)	(5,895,439)	-	(94,688,637)
Accumulated depreciation of disposals	-	261,906	2,284,904	10,543,223	-	13,090,033
Impairment	-	(297,979)	-	-	(220,800)	(518,779)
Transfers due to revaluation adjustment	-	382,107,113	-	-	-	382,107,113
Transfers and reclassifications*	-	-	-	2,040,000	-	2,040,000
<b>As of December 31, 2017</b>	<b>(78,373)</b>	<b>(130,030,333)</b>	<b>(707,572,527)</b>	<b>(91,619,933)</b>	<b>(29,496,409)</b>	<b>(958,797,575)</b>
Charge for the year	-	(36,976,889)	(62,645,721)	(6,194,578)	-	(105,817,188)
Accumulated depreciation of disposals	-	5,850	955,220	500,261	-	1,461,331
Impairment	-	8,943,533	-	-	-	8,943,533
Transfers due to revaluation adjustment	-	14,589,987	-	-	-	14,589,987
Transfers and reclassifications*	-	(523)	19,152	(21,997)	-	(3,368)
<b>As of December 31, 2018</b>	<b>(78,373)</b>	<b>(143,468,375)</b>	<b>(769,243,876)</b>	<b>(97,336,247)</b>	<b>(29,496,409)</b>	<b>(1,039,623,280)</b>
<b>Net book value as of December 31, 2017</b>	<b>70,080,194</b>	<b>541,257,830</b>	<b>523,319,554</b>	<b>26,754,223</b>	<b>93,147,377</b>	<b>1,254,559,178</b>
<b>Net book value as of December 31, 2018</b>	<b>69,790,163</b>	<b>531,283,987</b>	<b>510,287,755</b>	<b>27,346,555</b>	<b>96,395,201</b>	<b>1,235,103,661</b>

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

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

**Amounts in RON**

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost</b>						
<b>As of January 1, 2017</b>	<u>285,797,939</u>	<u>3,699,993,108</u>	<u>4,856,076,446</u>	<u>509,769,021</u>	<u>420,824,861</u>	<u>9,772,461,375</u>
Acquisitions	-	8,461	1,697,347	1,916,617	338,670,306	342,292,731
Transfers from CIP	-	66,687,688	172,647,898	20,083,284	(259,418,870)	-
Revaluation adjustment	-	526,887,783	-	-	-	526,887,783
Disposals	-	(2,466,043)	(9,572,724)	(43,697,845)	(3,406)	(55,740,018)
Transfers due to revaluation adjustment	-	(1,556,551,536)	-	-	-	(1,556,551,536)
Transfers and reclassifications*	-	-	(6,686,985)	(5,862,114)	(471,165)	(13,020,264)
<b>As of December 31, 2017</b>	<u>285,797,939</u>	<u>2,734,559,461</u>	<u>5,014,161,982</u>	<u>482,208,963</u>	<u>499,601,726</u>	<u>9,016,330,071</u>
Additions	(627,518)	128,828	936,093	534,546	337,296,532	338,268,481
Transfers from CIP	-	68,561,682	236,456,520	27,102,997	(332,121,199)	-
Revaluation adjustment	-	(30,341,395)	-	-	-	(30,341,395)
Disposals	(553,953)	(23,831)	(3,898,635)	(2,088,030)	-	(6,564,449)
Transfers due to revaluation adjustment	-	(59,433,771)	-	-	-	(59,433,771)
Transfers and reclassifications*	-	35,220,248	(35,355,907)	149,387	8,055,002	8,068,730
<b>As of December 31, 2018</b>	<u>284,616,468</u>	<u>2,748,671,222</u>	<u>5,212,300,053</u>	<u>507,907,863</u>	<u>512,832,061</u>	<u>9,266,327,667</u>
<b>Accumulated depreciation &amp; impairment</b>						
<b>As of January 1, 2017</b>	<u>(319,260)</u>	<u>(1,975,873,735)</u>	<u>(2,640,189,677)</u>	<u>(400,466,316)</u>	<u>(119,257,121)</u>	<u>(5,136,106,109)</u>
Charge for the year	-	(110,222,418)	(251,485,554)	(24,015,659)	-	(385,723,631)
Accumulated depreciation of disposals	-	1,066,900	9,307,785	42,948,873	-	53,323,558
Impairment	-	(1,213,847)	-	-	(899,451)	(2,113,298)
Transfers due to revaluation adjustment	-	1,556,551,536	-	-	-	1,556,551,536
Transfers and reclassifications*	-	(3)	-	8,310,144	-	8,310,141
<b>As of December 31, 2017</b>	<u>(319,260)</u>	<u>(529,691,567)</u>	<u>(2,882,367,446)</u>	<u>(373,222,958)</u>	<u>(120,156,572)</u>	<u>(3,905,757,803)</u>
Charge for the year	-	(150,629,055)	(255,193,609)	(25,234,234)	-	(431,056,898)
Accumulated depreciation of disposals	-	23,831	3,891,184	2,037,863	-	5,952,878
Impairment	-	36,432,376	-	-	-	36,432,376
Transfers due to revaluation adjustment	-	59,433,771	-	-	-	59,433,771
Transfers and reclassifications*	-	(2,130)	78,018	(89,607)	-	(13,719)
<b>As of December 31, 2018</b>	<u>(319,260)</u>	<u>(584,432,774)</u>	<u>(3,133,591,853)</u>	<u>(396,508,936)</u>	<u>(120,156,572)</u>	<u>(4,235,009,395)</u>
<b>Net book value as of December 31, 2017</b>	<u>285,478,679</u>	<u>2,204,867,894</u>	<u>2,131,794,536</u>	<u>108,986,005</u>	<u>379,445,154</u>	<u>5,110,572,268</u>
<b>Net book value as of December 31, 2018</b>	<u>284,297,208</u>	<u>2,164,238,448</u>	<u>2,078,708,200</u>	<u>111,398,927</u>	<u>392,675,489</u>	<u>5,031,318,272</u>

In 2018, Transfers and Reclassifications of USD 1.98 million (RON 8.06 million) (2017: USD 1.15 million, respectively RON 4,69 million) represent transfer to intangibles, reclassifications between categories and other adjustments. Also, an additional transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset in amount of USD 14.6 million (2017: USD 382.1 million).

In 2018 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery and Petrochemicals annual overhaul amounting to USD 18.3 million and State Inspection for Control of Boilers, Pressure Vessels and Hoisting (ISCIR) authorisations amounting USD 9.5 million, Tank rehabilitation amounting to USD 4.6 million, Replacement of Convective System for CO Boiler 3.6 million. Part of these projects have been transferred to the other property, plant and equipment categories.

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

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

amounting to USD 17.3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

- *Construction in progress*

At the end of 2018 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 5.4 million, State Inspection for Control of Boilers, Pressure Vessels and Hoisting (ISCIR) authorizations amounting to USD 5.4 million and Refinery specific optimization programs amounting to USD 26.13 million and USD 26.19 million in respect of retail network development (out of which new COCO & DODO station USD 8.9 million, rebranding the existing stations USD 7.5 million, fill & go project and loyalty program USD 2.5 million).

During 2018, Downstream continued the process of expanding the network by opening new stations and rebranding the existing ones. The value of investment was USD 7.69 million (2017: USD 21.7 million).

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

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

- *Disposals*

In 2018, out of the total USD 1.6 million disposed assets, USD 0.79 million refers to write-offs for Rompetrol Gas.

In 2017, out of the total USD 13.7 million disposed assets, USD 13.2 million refers to write-offs for Rompetrol Downstream.

- *Borrowing costs capitalized*

The 2018 capital projects were financed from Groups' operating cash flow, therefore no borrowing cost was capitalized during 2018 (2017: USD nil).

- *Disposals through sales of subsidiaries and liquidations*

During 2018 and 2017 there was no disposal of companies.

- *Impairment*

The Group completes an annual assessment for any indication of impairment for all entities based on specific asset considerations, as applicable, and taking into consideration expectations on future estimated cash flows. Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2018 and 31 December 2017 on the cash generating units ("CGUs") listed below in Note 6.

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

- Revaluation of buildings category

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

The change from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Group's assets. Fair value of the buildings category was determined using the market comparable method. The valuations were performed by an independent appraiser and are based on proprietary databases of prices for properties of similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement. A gain (net of deferred tax) from the revaluation of the Group buildings category of USD 146.4 million in 2017 was recognized in OCI and a loss of USD 45 million was recognized in the income statement.

In 2018 it was recognized a gain (net of deferred tax) from the revaluation of the Group buildings category (of Rompetrol Logistics) of USD 3 million that was recognized in OCI, together with a loss of USD 2.4 million recognized in the income statement. Additionally, for Rompetrol Petrochemicals SRL the negative impact of USD 8.9 million that resulted from the revaluation of buildings category was fully offset by the reversal of impairment, leading to a nil impact at income statement level.

**Reconciliation of carrying amount**

	<u>Buildings</u>	
	<u>mUSD</u>	<u>mRON</u>
<b>Carrying amount as at December 31, 2016*</b>	<b>423.24</b>	<b>1,724.11</b>
Revaluation gain recognized due to change in accounting policy to revaluation model	174.32	710.11
Revaluation loss recognized	(44.98)	(183.23)
Depreciation for the year	(27.06)	(110.23)
Additions/Disposals/Transfers and reclassifications	15.73	64.08
<b><u>Carrying amount and fair value as at 31 December 2017</u></b>	<b><u>541.25</u></b>	<b><u>2,250.99</u></b>
Revaluation gain recognized due to change in accounting policy to revaluation model	3.73	15.19
Revaluation loss recognized	(11.17)	(45.50)
Depreciation for the year	(36.98)	(150.64)
Additions/Disposals/Transfers and reclassifications	25.51	103.92
Impairment	8.94	36.42
<b><u>Carrying amount and fair value as at 31 December 2018</u></b>	<b><u>531.28</u></b>	<b><u>2,210.38</u></b>

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

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

	2018		2017	
	<u>mUSD</u>	<u>mRON</u>	<u>mUSD</u>	<u>mRON</u>
Cost	688.00	2,802.64	924.00	3,764.01
Accumulated depreciation and impairment	(149.00)	(606.97)	(512.00)	(2,085.68)
<b><u>Net carrying amount</u></b>	<b><u>539.00</u></b>	<b><u>2,195.67</u></b>	<b><u>412.00</u></b>	<b><u>1,678.32</u></b>

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

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment with a carrying value of USD 418 million (2017: USD 437.9 million) net, for securing banking facilities granted to Group entities.

In 2010 for Rompetrol Rafinare SA (the "Company") 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.

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 asset freeze 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 28). 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 December 31, 2018 no enforcement process has been made.

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**6. IMPAIRMENT TEST**

Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 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 including Goodwill for the cash generating units is the following: Refining USD 900 million, Petrochemicals USD 60 million, Downstream USD 292.87 million (of which 82.87 represents Goodwill).

*Refining*

Refining CGU includes the operations of Petromidia Refinery, Vega Refinery and Rominserv SA. 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 group, which is included within the 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).

*Downstream Romania*

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

The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit. The discount rate applied to cash flow projections is 9.7% (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%).

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

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

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

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**6. IMPAIRMENT TEST (CONTINUED)**

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%
Downstream Romania	1.0%	1.1%	(0.3)%	0.6%	1.4%

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

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

**Sensitivity to changes in assumptions**

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

*Refining*

The break-even point for the current model is achieved under a decrease of 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%

*Downstream Romania*

The break-even point for the current model is achieved under a decrease of Operating profit of 48.3% reaching the following Operating profit margins:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating profit margin	0.5%	0.6%	0.8%	1.1%	1.4%

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

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**7. INVESTMENTS**

**Investments in Consolidated Subsidiaries**

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

Company name	Country of incorporation	Range of activity	Effective ownership December 31, 2018	Control December 31, 2018	Effective ownership December 31, 2017	Control December 31, 2017
Romp petrol Downstream S.R.L.	Romania	Retail Trade of Fuels and Lubricants	100.00%	100.00%	100.00%	100.00%
Rom Oil S.A.	Romania	Wholesale of Fuels; fuel storage	100.00%	100.00%	100.00%	100.00%
Romp petrol Logistics S.R.L.	Romania	Logistics operations	66.19%	100.00%	66.19%	100.00%
Romp petrol Petrochemicals S.R.L.	Romania	Petrochemicals	100.00%	100.00%	100.00%	100.00%
Romp petrol Quality Control S.R.L.	Romania	Quality Control Services	100.00%	100.00%	100.00%	100.00%
Romp petrol Gas S.R.L.	Romania	LPG Sales	66.19%	100.00%	66.19%	100.00%

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

**8. INVENTORIES, NET**

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Crude oil and other feedstock materials	100,825,829	148,316,687	410,724,098	604,182,856
Petroleum and petrochemical products	153,153,760	139,135,248	623,887,157	566,781,346
Work in progress	28,075,835	31,572,883	114,369,721	128,615,296
Spare parts	16,145,767	16,625,967	65,771,396	67,727,539
Consumables and other raw materials	6,558,378	5,743,935	26,716,209	23,398,494
Merchandises	11,749,096	10,434,929	47,861,117	42,507,727
Other inventories	8,880,663	8,765,119	36,176,269	35,705,589
Inventories provision	(32,490,635)	(17,970,943)	(132,353,851)	(73,206,433)
	<u>292,898,693</u>	<u>342,623,825</u>	<u>1,193,152,116</u>	<u>1,395,712,414</u>

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

**Movements in inventories reserve:**

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Reserve as of January 1	(17,970,943)	(16,690,970)	(73,206,433)	(67,992,335)
Accrued provision	(29,330,246)	(3,864,942)	(119,479,690)	(15,744,228)
Write off	1,398	38,435	5,695	156,569
Reversal of provision	14,809,156	2,546,534	60,326,577	10,373,561
Reserve as of December 31	<u>(32,490,635)</u>	<u>(17,970,943)</u>	<u>(132,353,851)</u>	<u>(73,206,433)</u>

The inventories provisions mainly represent the provision for net realizable value in relation to refineries and petrochemical plant inventories (such as petroleum and petrochemicals products from production and trading, raw materials) and provision of old spare parts.

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 Group. The Group has pledged inventories in gross amount of USD 260 million (2017: USD 301.4 million) to secure banking facilities.



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**9. TRADE AND OTHER RECEIVABLES**

As mentioned in Note 1 the Parent company and its subsidiaries are part of KMG International Group. The balances with related parties are disclosed in Note 25.

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Trade receivables	211,035,171	272,145,734	859,672,872	1,108,612,862
Advances to suppliers	9,623,399	9,061,490	39,201,878	36,912,886
Sundry debtors	83,444,550	84,011,319	339,919,719	342,228,509
VAT to be recovered	33,164	12,050	135,097	49,087
Other receivables	155,195,749	176,224,862	632,205,403	717,869,598
Provision for expected credit losses	(50,077,194)	(105,245,948)	(203,994,457)	(428,729,894)
	<u>409,254,839</u>	<u>436,209,507</u>	<u>1,667,140,512</u>	<u>1,776,943,048</u>

Movement in the above provision is disclosed below and in Note 21.

Included in Sundry debtors in 2018 is an amount of USD 7.01 million (2017: USD 3.05 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2011-2015 period, and an additional USD 3.37 million (2017: USD 3.53 million) for payment made by Rompetrol Rafinare SA to Navodari City Hall following the fiscal audit on local taxes (in respect of revaluation of buildings) (see Note 27). Also, included in Sundry debtors category is an amount of USD 70.08 million (2017: USD 73.4 million) relating to Rompetrol Petrochemicals SRL receivables against KMG I as a result of Rompetrol Petrochemicals SRL assignment of receivables to KMG I starting with November 2017 for Rompetrol Rafinare SA debts (see note 11).

In 2018 out of the total amount of USD 9.6 million representing advances to suppliers, USD 4.3 million are in respect of other raw materials, investment projects and management fees services in Rompetrol Rafinare and USD 3.1 million are in respect of investment projects related to the construction of new stations, rebranding process and Loyalty project in Rompetrol Downstream.

Out of the total balance for other receivables of USD 155.2 million, an amount of USD 115.2 million relates to cash pooling receivables for: Rompetrol Downstream USD 72.5 million (2017: USD 92.9 million), Rompetrol Gas USD 32.6 million (2017: USD 19.9 million), Rompetrol Quality Control USD 0.13 million and Rom Oil S.A USD 0.01 million. Also, in other receivables an amount of USD 18.66 million (2017: USD 13.99 million) refers to excise receivables in Rompetrol Rafinare.

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Sundry debtors	83,444,550	84,011,319	339,919,719	342,228,509
Other receivables	155,195,749	176,224,862	632,205,403	717,869,598
Provision for sundry debtors and other receivables	(5,528,576)	(32,772,120)	(22,521,206)	(133,500,508)

Out of the total amount of other receivables and sundry debtors of USD 238.6 million (2017: USD 260.2 million) an amount of USD 5.5 million (2017: USD 32.77 million) is provisioned.

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

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

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
Balance at the beginning of the year	<u>(105,245,948)</u>	<u>(92,735,110)</u>	<u>(428,729,894)</u>	<u>(377,765,744)</u>
Charge for the year	(8,039,681)	(4,906,536)	(32,750,445)	(19,987,265)
Utilized	63,327,625	1,841,120	257,971,413	7,499,986
Unused amounts reversed	188,534	164,896	768,012	671,720
Reclassification between categories trade receivables and other receivables	(4,578,595)	-	(18,651,365)	-
IFRS 9 impact (RE adjustment)	(1,036,370)	-	(4,221,757)	-
Exchange rate differences	<u>5,307,241</u>	<u>(9,610,318)</u>	<u>21,619,579</u>	<u>(39,148,591)</u>
Balance at the end of the year	<u>(50,077,194)</u>	<u>(105,245,948)</u>	<u>(203,994,457)</u>	<u>(428,729,894)</u>

In 2018, the Group wrote off trade and other receivables in amount of USD 63.3 million for which all collection and legal actions were finalized and in accordance with statutory regulations can be derecognized. These receivables had been previously provided.

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

	Trade receivables						
	Days past due						Total
	Current	<30 days	30-60 days	61-90 days	90-120 days	>120 days	
Expected credit loss rate	0.52%	0.58%	3.08%	9.34%	15.76%	80.83%	
Estimated total gross carrying amount at default	57,466,817	89,201,662	6,484,846	3,069,804	1,621,433	53,190,611	211,035,173
Expected credit loss	298,393	514,782	199,902	286,768	255,503	42,993,268	44,548,616

	Trade receivables						Total
	Days past due					Total	
	Current	<30 days	30-60 days	61-90 days	90-120 days		>120 days
Expected credit loss rate	0.52%	0.58%	3.08%	9.34%	15.76%	80.83%	
Estimated total gross carrying amount at default	234,096,826	363,371,890	26,416,669	12,505,154	6,605,069	216,677,273	859,672,881
Expected credit loss	1,215,534	2,097,016	814,321	1,168,178	1,040,817	175,137,377	181,473,243

	USD	Neither past due not impaired	Past due but not impaired				
			1-30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	199,671,906	135,523,263	28,655,877	6,894,093	3,622,342	1,790,045	23,186,286

	RON	Neither past due not impaired	Past due but not impaired				
			1-30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	813,383,476	552,067,564	116,732,581	28,083,777	14,755,972	7,291,927	94,451,655

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

As at 31 December 2018, trade receivables at initial value of USD 50 million (2017: USD 72.47 million) were impaired and fully provided for. See below for the movements in the provision for impairment of trade receivables.

	<u>Individually impaired</u> USD	<u>Collectively impaired</u> USD	<u>Total</u> USD
<b>At 1 January 2017</b>	50,367,367	15,847,341	66,214,708
Charge for the year	1,111,745	478,710	1,590,455
Utilized	(1,335,492)	(505,628)	(1,841,120)
Unused amounts reversed	4,715	(170,937)	(166,222)
Exchange rate differences	4,827,235	1,848,772	6,676,007
<b>At 31 December 2017</b>	<b>54,975,570</b>	<b>17,498,258</b>	<b>72,473,828</b>
Charge for the year	1,540,408	6,499,623	8,040,031
Utilized	(2,023,890)	(31,654,894)	(33,678,784)
Unused amounts reversed	3,738	(192,272)	(188,534)
Reclassification between individually and collectively	-	(4,977)	(4,977)
IFRS 9 impact (RE adjustment)	-	1,036,370	1,036,370
Exchange rate differences	(2,237,884)	(891,432)	(3,129,316)
<b>At 31 December 2018</b>	<b>52,257,942</b>	<b>(7,709,324)</b>	<b>44,548,618</b>

	<u>Individually impaired</u> RON	<u>Collectively impaired</u> RON	<u>Total</u> RON
<b>At 1 January 2017</b>	205,176,506	64,555,729	269,732,235
Charge for the year	4,528,804	1,950,073	6,478,877
Utilized	(5,440,260)	(2,059,726)	(7,499,986)
Unused amounts reversed	19,207	(696,329)	(677,122)
Exchange rate differences	19,664,224	7,531,158	27,195,382
<b>At 31 December 2017</b>	<b>223,948,481</b>	<b>71,280,905</b>	<b>295,229,386</b>
Charge for the year	6,275,006	26,476,864	32,751,870
Utilized	(8,244,518)	(128,949,376)	(137,193,894)
Unused amounts reversed	15,227	(783,239)	(768,012)
Reclassification between individually and collectively	-	(20,274)	(20,274)
IFRS 9 impact (RE adjustment)	-	4,221,757	4,221,757
Exchange rate differences	(9,116,245)	(3,631,337)	(12,747,582)
<b>At 31 December 2018</b>	<b>212,877,951</b>	<b>(31,404,700)</b>	<b>181,473,251</b>

Trade receivables totaling USD 113.98 million (RON 464.4 million) as at December 31, 2018 and USD 127.85 million (RON 520.81 million) as at December 31, 2017 are pledged to obtain credit facilities (see Notes 12 and 16).

**10. CASH AND CASH EQUIVALENTS**

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Cash at bank	10,079,541	10,040,822	41,060,018	40,902,292
Cash on hand	1,150,039	2,361,831	4,684,799	9,621,155
Cash equivalents	247,603	189,540	1,008,636	772,110
	<b><u>11,477,183</u></b>	<b><u>12,592,193</u></b>	<b><u>46,753,453</u></b>	<b><u>51,295,557</u></b>

Included in cash at bank is USD 1.15 million (RON 4.68 million) as at December 31, 2018 (out of which USD 0.96 million representing letter of guarantee for ANAF) and USD 1.77 million (RON 7.21 million) as at December 31, 2017 representing cash collateral for certain bank facilities (see Note 12 and 16). Cash equivalents represent mainly cheques in the course of being cashed.

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**11.EQUITY**

As of December 31, 2018 and 2017 the share capital consisted of 44,109,205,726, authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at December 31, 2018 is as follows:

**December 31, 2018**

Shareholders	<u>Ownership</u>	<u>Amount per statutory documents [RON]</u>	<u>Amount under IFRS [USD]</u>	<u>Amount under IFRS [RON]</u>
KMG International NV	48.11%	2,122,250,642	704,057,130	2,868,047,125
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,664,321,260
Romp petrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	385,705,846
Romp petrol Well Services S.A.	0.05%	2,198,030	729,197	2,970,457
Others (not State or KMGI Group)	<u>0.67%</u>	<u>29,562,686</u>	<u>9,807,428</u>	<u>39,951,539</u>
<b>Total</b>	<b><u>100%</u></b>	<b><u>4,410,920,571</u></b>	<b><u>1,463,323,897</u></b>	<b><u>5,960,996,227</u></b>

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

**December 31, 2017**

Shareholders	<u>Ownership</u>	<u>Amount per statutory documents [RON]</u>	<u>Amount under IFRS [USD]</u>	<u>Amount under IFRS [RON]</u>
KMG International NV	48.11%	2,122,250,642	704,057,130	2,868,047,125
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,664,321,260
Romp petrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	385,705,846
Romp petrol Well Services S.A.	0.05%	2,198,030	729,197	2,970,457
Others (not State or KMGI Group)	<u>0.67%</u>	<u>29,562,686</u>	<u>9,807,428</u>	<u>39,951,539</u>
<b>Total</b>	<b><u>100%</u></b>	<b><u>4,410,920,571</u></b>	<b><u>1,463,323,897</u></b>	<b><u>5,960,996,227</u></b>

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

*Share premium and effect of transfers with equity holders*

Share premium and effect of transfers with equity holders are the result of conversion of bonds into ordinary shares as at September 30, 2010 in favor of the Romanian State represented by the Ministry of Finance, based on the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

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

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**11. EQUITY (continued)**

*Hybrid Loan*

In 2012, USD 800 million of the total outstanding balance of the loan payable to KMG International NV was converted into an unsecured hybrid loan, repayable after 51 years. During 2013, an additional USD 200 million were converted (USD 150 million related to Rompetrol Rafinare and USD 50 million to Rompetrol Downstream), the hybrid loan amounting to USD 1,000 million. The loan is subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 15% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

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

In 2017 an additional USD 72.2 million related to Rompetrol Rafinare SA were converted to hybrid loan repayable after 51 years. As of December 31, 2017, the total value of the hybrid loan is amounting USD 1,072 million. The additional loan is subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively:

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

Also, in 2017 management carried out an assessment on the potential hybrid loan interest liability and recorded an amount of USD 14.6 million, based on the projected profitability of the business for the upcoming period. This liability was updated in 2018 to USD 17 million.

*Revaluation reserve*

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

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

As of December 31, 2018, the balance of the revaluation reserves is affected by the transfer in retained earnings of the difference between depreciation based on revalued carrying amount and depreciation based on the initial cost of assets in the buildings category. Under the accounting policy adopted by the Group as of December 31, 2017, the revaluation surplus included in the revaluation reserve is capitalized by the transfer in retained earnings as a result of the use of the asset or disposal, insofar as that transfer has not already been made during the use of the asset reassessed. Thus, as of December 31, 2018, the revaluation surplus transferred to retained earnings was USD 9.9 million.

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

	<u>2018</u> USD		<u>2017</u> USD		<u>2018</u> RON		<u>2017</u> RON
<b>Unicredit Bank, ING Bank, BCR, Raiffeisen Bank</b>	103,977,541		-		423,562,912		-
Romp petrol Downstream: General corporate purposes and working capital facility of USD 360 million. The facility consists of two parts: (I) USD 240 million committed line, the maturity date is April 28, 2021 and (II) USD 120 million uncommitted, maturity date is April 28, 2019. The facility is secured by: inventories, receivables, depots and stations.							
<b>Unicredit Bank, ING Bank, BCR, Raiffeisen Bank</b>	120,158,484		-		489,477,600		-
Romp petrol Rafinare: General corporate purposes and working capital facility of USD 360 million. The facility consists of two parts: (I) USD 240 million committed line, the maturity date is April 28, 2021 and (II) USD 120 million uncommitted, maturity date is April 23, 2019. The facility is secured by: inventories, receivables, depots and stations.							
<b>Amount payable within one year principal</b>	(32,821)		-		(133,700)		-
<b>Total</b>	<u>224,103,204</u>		<u>=</u>		<u>912,906,812</u>		<u>=</u>
	<u>2018</u> USD		<u>2017</u> USD		<u>2018</u> RON		<u>2017</u> RON
One year or less - principal	32,821		-		133,700		-
One year or less - accrued interest long-term loans	-		-		-		-
Between two and five years	<u>224,103,204</u>		<u>=</u>		<u>912,906,812</u>		<u>=</u>
<b>Total</b>	<u>224,136,025</u>		<u>=</u>		<u>913,040,512</u>		<u>=</u>

The loans are secured with pledges on property plant and equipment of USD 418 million (2017: USD 437.9), inventories of USD 260 million (2017: USD 301.4) and trade receivables of USD: 113 million (2017: USD 127.8 million).

At the time of extension of the credit facility the Group has paid in advance a total fee of USD 2.67 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.

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

**13. DEFERRED TAX ASSETS AND LIABILITIES**

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

	<u>2018</u> USD		<u>2017</u> USD		<u>2018</u> RON		<u>2017</u> RON
Deferred tax assets	(37,661,607)		(36,221,657)		(153,418,321)		(147,552,542)
Deferred tax liabilities	<u>4,149,508</u>		<u>3,715,861</u>		<u>16,903,436</u>		<u>15,136,931</u>
<b>Deferred tax (asset) / liability, net</b>	<u>(33,512,099)</u>		<u>(32,505,796)</u>		<u>(136,514,885)</u>		<u>(132,415,611)</u>

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

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

**USD**

<b>2018</b>	<b>Opening balance</b>	<b>Charged/(Credited) to income</b>	<b>Charged/(Credited) to equity</b>	<b>Closing balance</b>
<b>Temporary differences</b>				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	320,133,707	7,230,225	(6,289,394)	321,074,538
Inventories	82,619	-	-	82,619
Provisions	(72,310,000)	-	-	(72,310,000)
Tax losses	(451,116,125)	(7,230,225)	-	(458,346,350)
Other	(663)	-	-	(663)
<b>Total temporary differences (asset)/liability</b>	<b>(203,161,224)</b>	<b>=</b>	<b>(6,289,394)</b>	<b>(209,450,618)</b>
<b>Deferred tax effect</b>				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	51,221,393	1,156,836	(1,006,303)	51,371,926
Inventories	13,219	-	-	13,219
Provisions	(11,569,600)	-	-	(11,569,600)
Tax losses	(72,178,580)	(1,156,836)	-	(73,335,416)
Other	(106)	-	-	(106)
<b>Deferred tax (asset)/liability recognized</b>	<b>(32,505,796)</b>	<b>=</b>	<b>(1,006,303)</b>	<b>(33,512,099)</b>

**RON**

<b>2018</b>	<b>Opening balance</b>	<b>Charged/(Credited) to income</b>	<b>Charged/(Credited) to equity</b>	<b>Closing balance</b>
<b>Temporary differences</b>				
Intangible assets	200,576	-	-	200,576
Property, plant and equipment	1,304,096,669	29,453,045	(25,620,475)	1,307,929,239
Inventories	336,557	-	-	336,557
Provisions	(294,562,016)	-	-	(294,562,016)
Tax losses	(1,837,666,647)	(29,453,045)	-	(1,867,119,692)
Other	(2,701)	-	-	(2,701)
<b>Total temporary differences (asset)/liability</b>	<b>(627,597,562)</b>	<b>=</b>	<b>(25,620,475)</b>	<b>(853,218,037)</b>
<b>Deferred tax effect</b>				
Intangible assets	32,092	-	-	32,092
Property, plant and equipment	208,655,466	4,712,487	(4,099,274)	209,268,679
Inventories	53,849	-	-	53,849
Provisions	(47,129,922)	-	-	(47,129,922)
Tax losses	(294,026,664)	(4,712,487)	-	(298,739,151)
Other	(432)	-	-	(432)
<b>Deferred tax (asset)/liability recognized</b>	<b>(132,415,611)</b>	<b>=</b>	<b>(4,099,274)</b>	<b>(136,514,885)</b>

The deferred tax (assets) /liabilities recognized at each company level is presented below:

**USD**

	<b>Opening balance</b>	<b>Charged/(Credited) to income</b>	<b>Charged/(Credited) to equity</b>	<b>Closing balance</b>
<b>Deferred tax (asset)/liability recognized</b>				
Romp petrol Rafinare SA	(36,221,657)	-	(1,439,950)	(37,661,607)
Romp petrol Downstream S.R.L.	1,898,858	-	(147,998)	1,750,860
Rom Oil S.A.	1,474,011	-	-	1,474,011
Romp petrol Gas S.R.L.	342,992	-	-	342,992
Romp petrol Logistics S.R.L.	-	-	581,645	581,645
<b>Deferred tax (asset)/liability recognized</b>	<b>(32,505,796)</b>	<b>=</b>	<b>(1,006,303)</b>	<b>(33,512,099)</b>

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

**RON**

	<u>Opening</u> <u>balance</u>	<u>Charged/(Credited)</u> <u>to income</u>	<u>Charged/(Credited)</u> <u>to equity</u>	<u>Closing</u> <u>balance</u>
Deferred tax (asset)/liability recognized				
Romp petrol Rafinare SA	(147,552,542)	-	(5,865,780)	(153,418,322)
Romp petrol Downstream S.R.L.	7,735,188	-	(602,885)	7,132,303
Rom Oil S.A.	6,004,531	-	-	6,004,531
Romp petrol Gas S.R.L.	1,397,212	-	-	1,397,212
Romp petrol Logistics S.R.L.	-	-	2,369,391	2,369,391
Deferred tax (asset)/liability recognized	<u>(132,415,611)</u>	-	<u>(4,099,274)</u>	<u>(136,514,885)</u>

**USD**

	<u>Opening</u> <u>balance</u>	<u>Charged/(Credited)</u> <u>to income</u>	<u>Charged/(Credited)</u> <u>to equity</u>	<u>Closing</u> <u>balance</u>
<b>2017</b>				
<b>Temporary differences</b>				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	125,006,263	20,803,900	174,323,544	320,133,707
Inventories	82,619	-	-	82,619
Provisions	(65,525,531)	(6,784,469)	-	(72,310,000)
Tax losses	(454,374,481)	3,258,356	-	(451,116,125)
Other	(663)	-	-	(663)
<b>Total temporary differences (asset)/liability</b>	<u>(394,762,555)</u>	<u>17,277,787</u>	<u>174,323,544</u>	<u>(203,161,224)</u>
<b>Deferred tax effect</b>				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	20,001,002	3,328,624	27,891,767	51,221,393
Investments	-	-	-	-
Inventories	13,219	-	-	13,219
Provisions	(10,484,085)	(1,085,515)	-	(11,569,600)
Tax losses	(72,699,917)	521,337	-	(72,178,580)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	<u>(63,162,009)</u>	<u>2,764,446</u>	<u>27,891,767</u>	<u>(32,505,796)</u>

**RON**

	<u>Opening</u> <u>balance</u>	<u>Charged/(Credited)</u> <u>to income</u>	<u>Charged/(Credited)</u> <u>to equity</u>	<u>Closing</u> <u>balance</u>
<b>2017</b>				
<b>Temporary differences</b>				
Intangible assets	200,576	-	-	200,576
Property, plant and equipment	509,225,513	84,746,767	710,124,389	1,304,096,669
Inventories	336,557	-	-	336,557
Provisions	(266,924,803)	(27,637,213)	-	(294,562,016)
Tax losses	(1,850,939,886)	13,273,239	-	(1,837,666,647)
Other	(2,701)	-	-	(2,701)
<b>Total temporary differences (asset)/liability</b>	<u>(1,608,104,744)</u>	<u>70,382,793</u>	<u>710,124,389</u>	<u>(827,597,562)</u>
<b>Deferred tax effect</b>				
Intangible assets	32,092	-	-	32,092
Property, plant and equipment	81,476,082	13,559,483	113,619,901	208,655,466
Inventories	53,849	-	-	53,849
Provisions	(42,707,969)	(4,421,953)	-	(47,129,922)
Tax losses	(296,150,382)	2,123,718	-	(294,026,664)
Other	(432)	-	-	(432)
Deferred tax (asset)/liability recognized	<u>(257,296,760)</u>	<u>11,261,248</u>	<u>113,619,901</u>	<u>(132,415,611)</u>



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

The ability of the Group to obtain recovery of its deferred tax asset depends on the entities ability, where tax losses have arisen to generate sufficient taxable income to cover the applicable tax losses available. Management considers that future taxable income will be generated for recovery of the available tax losses where it has recognized a corresponding deferred tax asset.

See also note 23 for details for the income tax rate and other related matters.

Deferred tax assets and liabilities cannot be offset between the companies from Romania. The local fiscal law does not define the concept of "Fiscal Group", therefore the fiscal losses cannot be offset between companies within the same country either.

**14. TRADE AND OTHER PAYABLES**

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
Trade payables	739,249,357	765,953,098	3,011,406,183	3,120,186,547
Advances from customers	-	26,318,867	-	107,212,537
Excise taxes	(207,674)	27,500	(845,981)	112,024
Special fund tax for oil products	6,764,803	7,082,443	27,557,102	28,851,040
VAT payable	30,748,391	33,555,506	125,256,646	136,691,709
Profit tax payable	-	758,592	-	3,090,200
Other taxes payable	(18,009)	(25,516)	(73,361)	(103,942)
Employees and social obligations	3,577,379	5,275,852	14,572,811	21,491,711
Deferred revenues	4,707,097	5,579,121	19,174,830	22,727,107
Other liabilities	131,613,596	122,141,497	536,141,145	497,555,602
<b>Total</b>	<b><u>916,434,940</u></b>	<b><u>966,666,960</u></b>	<b><u>3,733,189,375</u></b>	<b><u>3,937,814,535</u></b>

The Group entered into a cash pooling contract for optimizing cash, with KMG Rompetrol S.R.L. ("Master Company"). The amounts in balance as of December 31, 2018 are included in other liabilities, for the following companies: Rompetrol Rafinare S.A. USD 106.7 million and Rompetrol Gas USD 18.9 million. Rompetrol Downstream S.R.L., Rompetrol Gas S.R.L., Rompetrol Quality Control S.R.L and Rom Oil S.A. have a positive balance included in other receivables (see note 9) amounting to USD 72.5 million, USD 32.6 million, 0.13 million and USD 0.01 million respectively.

Also in other liabilities are included short term guarantees in Rompetrol Downstream S.R.L., in amount of USD 4.09 million (2017: USD 3.92 million).

As at December 31, 2018 the line "Advances from customers" does not present balance, due to reclassification of this balance sheet element into "Contract liabilities" (see note 15) as per IFRS 15. This change is applied prospectively.

In 2017 the amount of USD 26.3 million representing advances from customers is in respect of petroleum products sales and excises.

**15. CONTRACT LIABILITIES**

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
Short-term advances from wholesale customers	20,393,936	-	83,076,738	-
Short-term advances from other customers	5,553,277	-	22,621,829	-
<b>Total short-term advances</b>	<b>25,947,213</b>	<b>-</b>	<b>105,698,567</b>	<b>-</b>

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

The disclosed amounts refers to advances from customers is in respect of petroleum products sales and excises.

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**16. SHORT-TERM DEBT**

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
<b>Bancpost</b> Rompotrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2019. Drawings in USD/EUR/RON.	14,125,350	8,102,477	57,541,024	33,006,250
<b>Unicredit Bank, ING Bank, BCR, Raiffeisen Bank</b> Rompotrol Downstream: The entire exposure was composed by 2 different loans in USD. The loans were payable by April 23, 2021. The facility was replaced to a new long-term debt facility from the same consortium of banks.	-	103,960,000	-	423,491,456
<b>Unicredit Bank, ING Bank, BCR, Raiffeisen Bank</b> Rompotrol Rafinare: Overdraft facility of up to EUR 4 million, for current activity.	1,136,247	111,868,745	4,628,616	455,708,520
<b>Banca Transilvania</b> Rompotrol Rafinare S.A.: Revolving credit line on short term of up to EUR 18 million, for working capital. Maturity date is on October 10, 2019.	10,960,255	-	44,647,695	-
Accrued interest	-	132,010	-	537,756
<b>Current portion of long-term debt</b>	<b>32,821</b>	<b>-</b>	<b>133,700</b>	<b>-</b>
	<b>26,254,673</b>	<b>224,063,232</b>	<b>106,951,035</b>	<b>912,743,982</b>

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

**Borrowings from shareholders and related parties**

**KMG International N.V.**

Rompotrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 250 million, maturity date - December 31, 2018, assignment of receivables, real movable security interest over movable assets; real movable security interest over the investments in Rompetrol Logistics SRL, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil SA; real movable security interest over the bank accounts. The undrawn amounts as of December 31, 2018 is in amount of USD 190.18 million.

**Rompotrol Financial Group**

Rompotrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 29.5 million, maturity date - December 31, 2018. The facility has been fully used.

**KMG International N.V.**

Rompotrol Downstream SRL: Working capital facility for USD 39.2 million. Maturity date is December 31, 2018 with the possibility to be extended automatically with the agreement of both parties.

**Midia Marine Terminal**

Rompotrol Rafinare SA: Short-term facility for working capital needs in amount of USD 7 million, maturity date December 31, 2019. The facility has been fully used.

**Rompotrol Well Services S.A**

Rompotrol Rafinare SA: 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.

**Rompotrol Well Services S.A**

Rompotrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - February 28, 2019. The loan is secured with a promissory note covering the debt. The facility has been fully used.

**Rompotrol Well Services S.A**

Rompotrol Rafinare SA: 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.

**Rompotrol Well Services S.A**

Rompotrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - January 3, 2019. The loan is secured with a promissory note covering the debt.

**Accrued interest**

	2018 USD	2017 USD	2018 RON	2017 RON
	59,815,349	127,113,904	243,663,807	517,811,199
	28,230,057	29,551,587	114,997,960	120,381,345
	-	546,257	-	2,225,233
	6,679,746	6,992,445	27,210,613	28,484,424
	3,191,131	3,340,614	12,999,391	13,608,325
	2,749,411	2,878,068	11,200,001	11,724,098
	1,718,362	1,798,792	7,000,001	7,327,559
	760,998	796,608	3,100,001	3,245,062
	4,406,170	3,193,509	17,948,972	13,009,078
	107,551,244	176,211,784	438,120,746	717,816,323

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

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

All loans are interest bearing and the effective weighted average interest rates per currency are the following: EUR 5% (2017: 3.3%), RON 6% (2017: 4.30%) and USD 5.35% (2017: 3.20%).

The loans bearing guarantees are secured with pledges on property plant and equipment of USD 418 million (2017: USD 437.9), inventories of USD 260 million (2017: USD 301.4) and trade receivables of USD: 113.98 million (2017: USD 127.84 million).

The movement in loans is presented below:

	<u>At 1 January</u>			<u>Interest</u>	<u>Reclassificati</u>	<u>Exchange</u>	<u>At 31</u>
	<u>2018</u>	<u>Drawings</u>	<u>Repayment</u>	<u>accrual</u>	<u>on between</u>	<u>rate</u>	<u>December</u>
					<u>ST and LT</u>	<u>impact</u>	<u>2018</u>
<b>USD</b>							
Long-term borrowings from banks	-	285,419	(15,896,795)	-	239,714,580	-	224,103,204
Short-term borrowings from banks	223,931,222	416,946,173	(373,932,742)	-	(239,714,580)	(1,008,221)	26,221,852
Short term borrowings from related parties	173,018,275	-	(67,844,812)	-	-	(2,028,389)	103,145,074
Interest Short term borrowings from related parties	3,193,509	-	(5,974,381)	7,219,863	-	-	4,438,991
Interest Short-term borrowings from banks	<u>132,010</u>	-	-	-	<u>(132,010)</u>	-	-
<b>Total</b>	<b><u>400,275,016</u></b>	<b><u>417,231,592</u></b>	<b><u>(463,648,730)</u></b>	<b><u>7,219,863</u></b>	<b><u>(132,010)</u></b>	<b><u>(3,036,610)</u></b>	<b><u>357,909,121</u></b>
<b>RON</b>							
Long-term borrowings from banks	-	1,162,683	(64,757,184)	-	976,501,313	-	912,906,812
Short-term borrowings from banks	912,206,226	1,698,471,930	(1,523,252,418)	-	(976,501,313)	(4,107,089)	106,817,336
Short term borrowings from related parties	704,807,245	-	(276,372,627)	-	-	(8,262,845)	420,171,773
Interest Short term borrowings from related parties	13,009,078	-	(24,337,240)	29,410,834	-	-	18,082,672
Interest Short-term borrowings from banks	<u>537,756</u>	-	-	-	<u>(537,756)</u>	-	-
<b>Total</b>	<b><u>1,630,560,305</u></b>	<b><u>1,699,634,613</u></b>	<b><u>(1,888,719,469)</u></b>	<b><u>29,410,834</u></b>	<b><u>(537,756)</u></b>	<b><u>(12,369,934)</u></b>	<b><u>1,457,978,593</u></b>

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**17. PROVISIONS**

Provisions comprise the following:

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Non-current provisions	85,664,505	85,001,042	348,962,929	346,260,245
<b>Total Provisions</b>	<b><u>85,664,505</u></b>	<b><u>85,001,042</u></b>	<b><u>348,962,929</u></b>	<b><u>346,260,245</u></b>

The movement in provisions is presented below:

USD	<u>At 1 January</u> <u>2018</u>	<u>Charged to</u> <u>equity</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>At 31</u> <u>December</u> <u>2018</u>
Provision for retirement benefit	8,237,099	5,002,753	26,692	-	13,266,544
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	72,384,475	-	-	-	72,384,475
Other provisions	4,365,982	-	-	(4,365,982)	-
<b>Total</b>	<b><u>85,001,042</u></b>	<b><u>5,002,753</u></b>	<b><u>26,692</u></b>	<b><u>(4,365,982)</u></b>	<b><u>85,664,505</u></b>

RON	<u>At 1</u> <u>January</u> <u>2018</u>	<u>Charged</u> <u>to equity</u>	<u>Arising</u> <u>during</u> <u>the year</u>	<u>Reclassification</u> <u>between balance</u> <u>sheet items</u>	<u>At 31 December 2018</u>
Provision for retirement benefit	33,554,646	20,379,217	108,732	-	54,042,595
Provision for restructuring	54,937	-	-	-	54,937
Environmental provisions	294,865,397	-	-	-	294,865,397
Other provisions	17,785,265	-	-	(17,785,265)	-
<b>Total</b>	<b><u>346,260,245</u></b>	<b><u>20,379,217</u></b>	<b><u>108,732</u></b>	<b><u>(17,785,265)</u></b>	<b><u>348,962,929</u></b>

The movement in other provisions from 2018 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 0.9 million - according to the Decision 1049073/24 from April 2013 issued by the General Directorate of Public Finance, in April 2018 the last installment was paid according to the mentioned decision, thus the provision created for this purpose was reversed) and also a provision that was booked in relation to fiscal controls for the period 2011 - 2015 in relation to Rompetrol Rafinare in amount of USD 3.5 million (see note 26), which was reclassified as a provision for sundry debtors as of December 31, 2018 (see notes 9 and 26).

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

RON	<u>At 1 January</u> <u>2017</u>	<u>Charged to</u> <u>equity</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>At 31</u> <u>December</u> <u>2017</u>
Provision for retirement benefit	28,345,755	4,129,531	1,079,360	-	33,554,646
Provision for restructuring	54,937	-	-	-	54,937
Environmental provisions	267,210,770	-	27,654,627	-	294,865,397
Other provisions	15,731,112	-	14,293,177	(12,239,024)	17,785,265
<b>Total</b>	<b><u>311,342,574</u></b>	<b><u>4,129,531</u></b>	<b><u>43,027,164</u></b>	<b><u>(12,239,024)</u></b>	<b><u>346,260,245</u></b>

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**17. PROVISIONS (continued)**

Environmental provision

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 USD 72.4 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.

In 2017, the environmental provision for site restoration was increased for Rompetrol Rafinare S.A (Vega refinery) with USD 6.8 million for the cleaning of the oil sludge pools and restoration of contaminated land.

Retirement benefit provision

Under the collective labor agreements that certain of the Group's entities have in force, employees are entitled to specific retirement benefits that are payable upon retirement, if the employees are employed with Group entities at the date of their retirement. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the relevant Group entities; and actuarial assumptions regarding mortality, staff turnover etc. 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% (2017: 4.52%) for Romanian subsidiaries with an expected rate of long-term salary increase 2.99% (2017: 3.46%).

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Interest on obligation	143,725	73,638	585,478	299,972
Service cost	390,918	362,129	1,592,444	1,475,169
Curtailments due to retirement	(507,951)	(170,802)	(2,069,189)	(695,779)
<b>Total</b>	<b><u>26,692</u></b>	<b><u>264,965</u></b>	<b><u>108,733</u></b>	<b><u>1,079,362</u></b>

The amounts included in the statement of financial position arising from the retirement benefit obligation are as follows:

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
<b>Opening balance</b>	<b>8,237,099</b>	<b>6,958,404</b>	<b>33,554,646</b>	<b>28,345,755</b>
Amounts recognized in income statement	26,692	264,965	108,733	1,079,362
Actuarial losses / (gains) recorded in the year (amounts recognized in "Other comprehensive income")	<u>5,002,753</u>	<u>1,013,730</u>	<u>20,379,216</u>	<u>4,129,529</u>
<b>Closing balance</b>	<b><u>13,266,544</u></b>	<b><u>8,237,099</u></b>	<b><u>54,042,595</u></b>	<b><u>33,554,646</u></b>

The charge for the year is included in the salaries expenses in the income statement for 2018.

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

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**18. REVENUES FROM CONTRACTS WITH CUSTOMERS**

2018

<b>USD</b>	<b><u>Refining</u></b>	<b><u>Petrochemicals</u></b>	<b><u>Marketing</u></b>	<b><u>Consolidation adjustments</u></b>	<b><u>Consolidated</u></b>
Gross revenues from petroleum products production	4,640,038,284	-	-	110,599,871	4,750,638,155
Gross revenues from petroleum products trading	15,188,740	-	2,999,086,278	(2,806,000,979)	208,274,039
Revenues from petrochemicals production	-	198,598,935	-	-	198,598,935
Revenues from petrochemicals trading	-	4,104,761	-	-	4,104,761
Revenues from merchandise sales	566,328	-	82,063,460	(956)	82,628,832
Revenues from utilities sold	2,140,912	-	-	(112,159)	2,028,753
Revenues from transportation fees	-	-	2,405,205	(142)	2,405,063
Revenues from rents and other services	3,298,195	-	20,774,745	(13,584,973)	10,487,967
<b>Gross Revenues</b>	<b>4,661,232,459</b>	<b>202,703,696</b>	<b>3,104,329,688</b>	<b>(2,709,099,338)</b>	<b>5,259,166,505</b>
Less sales taxes	(1,063,239,257)	-	(1,139,760,544)	1,061,910,438	(1,141,089,363)
Less commercial discounts	-	-	(143,219,177)	5,685,403	(137,533,774)
<b>Total</b>	<b><u>3,597,993,202</u></b>	<b><u>202,703,696</u></b>	<b><u>1,821,349,967</u></b>	<b><u>(1,641,503,497)</u></b>	<b><u>3,980,543,368</u></b>

2018

<b>RON</b>	<b><u>Refining</u></b>	<b><u>Petrochemicals</u></b>	<b><u>Marketing</u></b>	<b><u>Consolidation adjustments</u></b>	<b><u>Consolidated</u></b>
Gross revenues from petroleum products production	18,901,659,954	-	-	450,539,635	19,352,199,588
Gross revenues from petroleum products trading	61,872,851	-	12,217,077,862	(11,430,525,588)	848,425,125
Revenues from petrochemicals production	-	809,012,622	-	-	809,012,622
Revenues from petrochemicals trading	-	16,721,154	-	-	16,721,154
Revenues from merchandise sales	2,306,994	-	334,293,711	(3,894)	336,596,810
Revenues from utilities sold	8,721,219	-	-	(456,891)	8,264,328
Revenues from transportation fees	-	-	9,797,843	(578)	9,797,265
Revenues from rents and other services	13,435,527	-	84,628,001	(55,339,746)	42,723,782
<b>Gross Revenues</b>	<b>18,987,996,545</b>	<b>825,733,776</b>	<b>12,645,797,417</b>	<b>(11,035,787,063)</b>	<b>21,423,740,675</b>
Less sales taxes	(4,331,211,437)	-	(4,642,928,552)	4,325,798,360	(4,648,341,629)
Less commercial discounts	-	-	(583,417,639)	23,160,058	(560,257,582)
<b>Total</b>	<b><u>14,656,785,108</u></b>	<b><u>825,733,776</u></b>	<b><u>7,419,451,226</u></b>	<b><u>(6,686,828,645)</u></b>	<b><u>16,215,141,464</u></b>

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**18. REVENUES FROM CONTRACTS WITH CUSTOMERS (continued)**

2017

USD	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Gross revenues from petroleum products production	3,600,294,250	-	-	113,750,862	3,714,045,112
Gross revenues from petroleum products trading	13,238,446	-	2,371,766,357	(2,226,308,583)	158,696,220
Revenues from petrochemicals production	-	189,911,561	-	-	189,911,561
Revenues from petrochemicals trading	-	1,414,938	-	-	1,414,938
Revenues from merchandise sales	6,289,073	-	69,438,051	(2,882,275)	72,844,849
Revenues from utilities sold	1,983,229	-	-	(106,013)	1,877,216
Revenues from transportation fees	-	-	1,926,071	(105,503)	1,820,568
Revenues from rents and other services	3,447,986	-	19,304,634	(12,274,747)	10,477,873
<b>Gross Revenues</b>	<b>3,625,252,984</b>	<b>191,326,499</b>	<b>2,462,435,113</b>	<b>(2,127,926,259)</b>	<b>4,151,088,337</b>
Less sales taxes	(891,171,621)	-	(944,700,200)	888,800,368	(947,071,453)
Less commercial discounts	-	-	(111,900,833)	891,277	(111,009,556)
<b>Total</b>	<b><u>2,734,081,363</u></b>	<b><u>191,326,499</u></b>	<b><u>1,405,834,080</u></b>	<b><u>(1,238,234,614)</u></b>	<b><u>3,093,007,328</u></b>

2017

RON	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Gross revenues from petroleum products production	14,666,158,657	-	-	463,375,511	15,129,534,168
Gross revenues from petroleum products trading	53,928,134	-	9,661,627,432	(9,069,090,644)	646,464,922
Revenues from petrochemicals production	-	773,623,735	-	-	773,623,735
Revenues from petrochemicals trading	-	5,763,891	-	-	5,763,891
Revenues from merchandise sales	25,619,168	-	282,862,845	(11,741,235)	296,740,777
Revenues from utilities sold	8,078,882	-	-	(431,855)	7,647,027
Revenues from transportation fees	-	-	7,846,043	(429,777)	7,416,266
Revenues from rents and other services	14,045,716	-	78,639,357	(50,002,409)	42,682,663
<b>Gross Revenues</b>	<b>14,767,830,556</b>	<b>779,387,626</b>	<b>10,030,975,676</b>	<b>(8,668,320,409)</b>	<b>16,909,873,450</b>
Less sales taxes	(3,630,276,715)	-	(3,848,330,735)	3,620,617,179	(3,857,990,271)
Less commercial discounts	-	-	(455,839,233)	3,630,706	(452,208,527)
<b>Total</b>	<b><u>11,137,553,840</u></b>	<b><u>779,387,626</u></b>	<b><u>5,726,805,708</u></b>	<b><u>(5,044,072,524)</u></b>	<b><u>12,599,674,651</u></b>

Total Revenues increased mainly due to the volatility of oil and gas market environment resulting in a higher year average price for crude oil and by the increase in the volume of products sold compared to last year. The increased price of crude oil resulted in increased prices of refined products and corresponding revenues.



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**19. COST OF SALES**

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Crude oil and other raw materials	3,231,482,948	2,421,981,270	13,163,768,938	9,866,182,901
Consumables and other materials	13,847,622	13,400,239	56,409,673	54,587,214
Utilities	83,492,409	68,681,881	340,114,677	279,782,510
Staff costs	27,999,889	25,456,218	114,060,348	103,698,450
Transportation	219,602	154,559	894,571	629,612
Maintenance and repairs	25,353,259	22,075,229	103,279,036	89,925,653
Insurance	1,586,385	1,421,363	6,462,298	5,790,064
Environmental expenses	288,384	237,943	1,174,761	969,285
Other	10,373,487	10,132,264	42,257,437	41,274,791
<b>Cash production cost</b>	<b>3,394,643,985</b>	<b>2,563,540,966</b>	<b>13,828,421,739</b>	<b>10,442,840,480</b>
Depreciation and amortization	72,121,085	64,456,593	293,792,452	262,570,377
<b>Production costs</b>	<b>3,466,765,070</b>	<b>2,627,997,559</b>	<b>14,122,214,191</b>	<b>10,705,410,857</b>
Plus: Change in inventories	12,099,270	(40,397,753)	49,287,586	(164,564,287)
Less: Own production of property, plant & equipment	(3,094,711)	(1,900,801)	(12,606,615)	(7,743,103)
Cost of petroleum products trading	179,708,264	129,637,433	732,059,584	528,091,047
Cost of petrochemicals trading	3,927,558	1,593,075	15,999,300	6,489,550
Cost of merchandise sold	63,200,131	57,202,472	257,452,054	233,019,990
Cost of utilities resold	931,060	953,451	3,792,766	3,883,978
Realized (gains)/losses on derivatives	882,846	11,545,320	3,596,361	47,031,016
<b>Total</b>	<b><u>3,724,419,488</u></b>	<b><u>2,786,630,756</u></b>	<b><u>15,171,795,227</u></b>	<b><u>11,351,619,048</u></b>

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Staff costs	18,874,914	19,348,644	76,888,848	78,818,634
Utilities	4,936,688	4,171,180	20,110,092	16,991,719
Transportation	48,560,596	47,971,631	197,816,444	195,417,236
Professional and consulting fees	50,520,323	37,034,860	205,799,588	150,865,206
Royalties and rents	6,274,100	5,743,807	25,558,174	23,397,972
Consumables	240,378	296,505	979,204	1,207,843
Marketing	4,441,724	4,541,636	18,093,807	18,500,808
Taxes	2,406,139	2,371,293	9,801,648	9,659,699
Communications	992,526	834,292	4,043,154	3,398,572
Insurance	1,039,276	1,073,678	4,233,595	4,373,735
IT related expenditures	9,083,270	9,309,492	37,001,609	37,923,147
Environmental expenses	3,776,254	2,283,816	15,382,948	9,303,353
Maintenance and repairs	9,586,991	9,437,103	39,053,567	38,442,983
Other expenses	16,157,741	14,860,131	65,820,174	60,534,230
<b>Costs before depreciation</b>	<b>176,890,920</b>	<b>159,278,068</b>	<b>720,582,852</b>	<b>648,835,137</b>
Depreciation and amortization	35,021,996	31,605,401	142,665,603	128,747,762
<b>Total</b>	<b><u>211,912,916</u></b>	<b><u>190,883,469</u></b>	<b><u>863,248,455</u></b>	<b><u>777,582,899</u></b>

In "Professional and consulting fees" line are booked expenses for consultancy and management services from the specialized management companies of the group, namely KMG Rompetrol SRL (KMGR) and KMG International NV (KMG I). Variations of 2018 vs. 2017 are the result of adjustments to services rendered for the 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 the related parties.

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

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
Net gain /(loss) on disposal of assets	347,156	376,590	1,414,175	1,534,077
Reverse for impairment of tangible assets, net	8,943,534	(518,779)	36,432,376	(2,113,298)
Provision for receivables and write-off, net	(3,421,795)	(894,965)	(13,939,024)	(3,645,730)
Provision for inventories and write-off, net	(14,519,692)	(1,279,973)	(59,147,418)	(5,214,098)
Tangible and intangible assets write-off	(1,609)	(518,779)	(6,554)	(2,113,298)
Loss from revaluation of non-current assets	(11,174,920)	(44,981,492)	(45,522,154)	(183,236,606)
Inventories write-off	(204,107)	(93,498)	(831,450)	(380,873)
Other provisions, net	-	(10,297,478)	-	(41,947,806)
Other, net	<u>621,792</u>	<u>255,965</u>	<u>2,532,935</u>	<u>1,042,699</u>
<b>Total</b>	<b><u>(19,409,641)</u></b>	<b><u>(57,952,409)</u></b>	<b><u>(79,067,114)</u></b>	<b><u>(236,074,933)</u></b>

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

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	USD	USD	RON	RON
<b>Finance cost</b>				
Late payment interest	(243,565)	(99,212)	(992,186)	(404,150)
Interest expense	(25,434,697)	(23,136,264)	(103,610,782)	(94,247,885)
Interest expense shareholders	(7,451,149)	(8,988,097)	(30,353,001)	(36,613,912)
Unwinding of discount on hybrid	(2,322,717)	(1,756,732)	(9,461,820)	(7,156,223)
Other financial expense	(23,472,042)	(19,247,232)	(95,615,710)	(78,405,525)
	<u>(58,924,170)</u>	<u>(53,227,537)</u>	<u>(240,033,499)</u>	<u>(216,827,695)</u>
<b>Finance income</b>				
Interest income	12,131,051	20,041,076	49,417,049	81,639,327
Other financial income	<u>355,679</u>	<u>486,529</u>	<u>1,448,894</u>	<u>1,981,925</u>
	<b>12,486,730</b>	<b>20,527,605</b>	<b>50,865,943</b>	<b>83,621,252</b>
<b>Finance income/(cost) net</b>	<b>(46,437,440)</b>	<b>(32,699,932)</b>	<b>(189,167,556)</b>	<b>(133,206,443)</b>
Unrealized net foreign exchange (losses)/gains	10,282,494	(903,766)	41,886,768	(3,681,581)
Realized net foreign exchange (losses)/gains	(16,370,615)	319,217	(66,687,337)	1,300,362
Foreign exchange gain/(loss), net	<u>(6,088,121)</u>	<u>(584,549)</u>	<u>(24,800,569)</u>	<u>(2,381,219)</u>
<b>Total</b>	<b><u>(52,525,561)</u></b>	<b><u>(33,284,481)</u></b>	<b><u>(213,968,125)</u></b>	<b><u>(135,587,662)</u></b>

In 2018 out of the total of USD 23.5 million (2017: 19.2) representing other financial expenses an amount of approximately USD 20 million (2017: USD 17 million) represents interest and other financial expenses owed to KMG Trading for financing activities.

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**23. INCOME TAX**

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Tax expense comprises:				
Current tax expense	(49,050)	786,310	(199,810)	3,203,112
Deferred tax credit relating to the origination and reversal of temporary differences	-	2,764,446	-	11,261,248
<b>Total tax expense/(income)</b>	<b><u>(49,050)</u></b>	<b><u>3,550,756</u></b>	<b><u>(199,810)</u></b>	<b><u>14,464,360</u></b>

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

<u>Entity</u>	<u>Carried forward fiscal losses 2018</u> USD million	<u>Recognised Deferred Tax Asset 2018</u>	<u>Carry forward fiscal losses 2017</u> USD million	<u>Deferred Tax Asset 2018</u>
Rompetrol Rafinare SA	466.8	458.3	494.3	471.5
Rompetrol Petrochemicals SRL	30.1	-	33.5	-
Rompetrol Logistics SRL	4.6	-	6	-
Rom Oil SA	3.0	-	3.3	-
<b>As at December 31 2018</b>	<b><u>504.5</u></b>	<b><u>458.3</u></b>	<b><u>537.1</u></b>	<b><u>471.5</u></b>

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

As at 31 December 2018, deferred tax asset was recognized for USD 458 million (2017: USD 471 million) of the losses carried forward, based on the future fiscal profits estimated to be registered, in Rompetrol Rafinare. No deferred tax asset has been recognized for USD 46.2 million (2016: USD 66 million) in relation to the tax losses for the above entities, based on the assessment made.

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

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**23. INCOME TAX (continued)**

A breakdown of tax losses by Group entity and by year of expiry are:

Entity		Taxable loss Amount USD million	Taxable loss Amount RON million	Tax loss Expires in
<b>Rompetrol Rafinare SA</b>	2012	78.4	319.3	2019
	2013	96.1	391.6	2020
	2014	176.9	720.7	2021
	2015	94.0	383.0	2022
	2016	3.0	12.2	2023
	2017	-	-	2024
	2018	18.4	75.0	2025
		<b>466.8</b>	<b>1,901.8</b>	
<b>Rompetrol Petrochemicals SRL</b>	2012	15.5	63.0	2019
	2013	-	-	2020
	2014	11.3	46.0	2021
	2015	0.4	1.8	2022
	2016	0.3	1.2	2023
	2017	-	-	2024
	2018	2.6	10.6	2025
		<b>30.1</b>	<b>122.6</b>	
<b>Rom Oil SA</b>	2012	1.0	4.2	2019
	2013	0.9	3.7	2020
	2014	0.7	3.0	2021
	2015	-	-	2022
	2016	-	-	2023
	2017	0.4	1.7	2024
	2018	-	-	2025
		<b>3.0</b>	<b>12.6</b>	
<b>Rompetrol Logistics SRL</b>	2012	0.7	2.8	2019
	2013	0.6	2.6	2020
	2014	0.6	2.4	2021
	2015	0.3	1.2	2022
	2016	0.3	1.2	2023
	2017	1.7	6.7	2024
	2018	0.4	1.5	2025
		<b>4.6</b>	<b>18.4</b>	
		<b>504.5</b>	<b>2,055.4</b>	

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

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

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

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**23. INCOME TAX (continued)**

c) The prima facie tax charge to the statements of income calculated based on regulatory accounts is reconciled to the profit tax expense calculated based on tax rules as follows, taking into account temporary differences and non-deductible items:

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
Result before tax	(27,724,238)	24,256,213	(112,937,456)	98,810,109
<i>of which</i>				
Companies which recorded profit	23,247,757	46,350,320	94,702,063	188,812,664
Companies which recorded loss	(50,971,995)	(22,094,107)	(207,639,519)	(90,002,554)
Tax at prevailing tax rate (16%)	3,719,641	7,416,052	15,152,330	30,210,029
Effect of losses carried forward	(5,903,879)	(12,531,138)	(24,050,041)	(51,046,843)
Effect of statutory items non deductible / (not taxable) for tax purposes	2,135,188	8,665,842	8,697,901	35,301,174
Non-deductible expenses	8,581,460	9,749,166	34,957,435	39,714,203
Not - taxable income	(6,446,272)	(1,083,324)	(26,259,534)	(4,413,029)
<b>Income tax expense recognized in profit or loss</b>	<b><u>(49,050)</u></b>	<b><u>3,550,756</u></b>	<b><u>(199,810)</u></b>	<b><u>14,464,360</u></b>

**24. OPERATING SEGMENT INFORMATION**

**1. Operating Segments**

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

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

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

**2018 Income Statement information**

	<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Amounts not allocated between Refining &amp; Petrochemicals segments</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues "external customers"	1,980,726,646		202,703,696		1,797,113,026		3,980,543,368
Net revenues "inter segment"	1,420,249,878		-		7,189,680	(1,427,439,558)	-
Cost of sales	(3,258,180,255)		(226,333,386)		(1,672,737,220)	1,432,831,373	(3,724,419,488)
<b>Gross margin</b>	<b>142,796,269</b>		<b>(23,629,690)</b>		<b>131,565,486</b>	<b>5,391,815</b>	<b>256,123,880</b>
Selling, general and administrative expenses	(68,126,136)		(10,543,857)		(110,992,366)	(22,250,557)	(211,912,916)
Other operating income/(expenses), net	(16,623,257)		117,827		(5,338,539)	2,434,328	(19,409,641)
<b>Operating margin (EBIT)</b>	<b>58,046,876</b>		<b>(34,055,720)</b>		<b>15,234,581</b>	<b>(14,424,414)</b>	<b>24,801,323</b>
Financial expenses, net				(40,300,865)	(2,069,970)	(4,066,605)	(46,437,440)
Net foreign exchange result		58,046,876	(34,055,720)	(4,083,610)	(2,004,511)	-	(6,088,121)
<b>Profit/(loss) before income tax</b>	<b>58,046,876</b>	<b>58,046,876</b>	<b>(34,055,720)</b>	<b>(44,384,475)</b>	<b>11,160,100</b>	<b>(18,491,019)</b>	<b>(27,724,238)</b>
Income tax				(44,384,475)	49,050	-	49,050
<b>Net Profit/(Loss)</b>	<b>58,046,876</b>	<b>58,046,876</b>	<b>(34,055,720)</b>	<b>(44,384,475)</b>	<b>11,209,150</b>	<b>(18,491,019)</b>	<b>(27,675,188)</b>
Depreciation and amortisation	71,337,124		16,102,827		20,277,806	(574,676)	107,143,081

	<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Amounts not allocated between Refining &amp; Petrochemicals segments</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues "external customers"	8,068,688,065		825,733,776	-	7,320,719,623	-	16,215,141,464
Net revenues "inter segment"	5,785,529,903		-	-	29,287,880	(5,814,817,783)	-
Cost of sales	(13,272,523,087)		(921,991,681)		(6,814,062,339)	5,836,781,880	(15,171,795,227)
<b>Gross margin</b>	<b>581,694,881</b>		<b>(96,257,905)</b>		<b>535,945,164</b>	<b>21,964,097</b>	<b>1,043,346,237</b>
Selling, general and administrative expenses	(277,518,628)		(42,951,456)		(452,138,502)	(90,639,869)	(863,248,455)
Other operating income/(expenses), net	(67,716,500)		479,980		(21,747,072)	9,916,478	(79,067,114)
<b>Operating margin (EBIT)</b>	<b>236,459,753</b>		<b>(138,729,381)</b>		<b>62,059,590</b>	<b>(58,759,294)</b>	<b>101,030,668</b>
Financial expenses, net				(164,169,604)	(8,432,230)	(16,565,722)	(189,167,556)
Net foreign exchange result		236,459,753	(138,729,381)	(16,634,994)	(8,165,575)	-	(24,800,569)
<b>Profit/(loss) before income tax</b>	<b>236,459,753</b>	<b>236,459,753</b>	<b>(138,729,381)</b>	<b>(180,804,598)</b>	<b>45,461,785</b>	<b>(75,325,016)</b>	<b>(112,937,457)</b>
Income tax				(180,804,598)	199,810	-	199,810
<b>Net Profit/(Loss)</b>	<b>236,459,753</b>	<b>236,459,753</b>	<b>(138,729,381)</b>	<b>(180,804,598)</b>	<b>45,661,595</b>	<b>(75,325,016)</b>	<b>(112,737,647)</b>
Depreciation and amortisation	290,598,908		65,596,476		82,603,671	(2,340,999)	436,458,056

For additional information regarding operating segments and streams please also see Note 18 Revenues from contract with customers.

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

**2018 Statement of financial position information**

<b>USD</b>	<b><u>Refining &amp; Petrochemicals</u></b>	<b><u>Marketing</u></b>	<b><u>Consolidation adjustments</u></b>	<b><u>Consolidated</u></b>
Total non current assets	1,717,025,658	245,075,428	(595,588,185)	1,366,512,901
Total current assets	506,590,540	367,171,510	(157,522,823)	716,239,227
<b>TOTAL ASSETS</b>	<b><u>2,223,616,198</u></b>	<b><u>612,246,938</u></b>	<b><u>(753,111,008)</u></b>	<b><u>2,082,752,128</u></b>
Total equity	1,034,607,805	245,606,533	(604,849,754)	675,364,584
Total non-current liabilities	211,409,783	108,391,272	11,321,839	331,122,894
Total current liabilities	977,598,610	258,249,133	(159,583,093)	1,076,264,650
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>2,223,616,198</u></b>	<b><u>612,246,938</u></b>	<b><u>(753,111,008)</u></b>	<b><u>2,082,752,128</u></b>
Capital expenditure	66,321,027	19,533,825	(46,446)	85,808,406

<b>RON</b>	<b><u>Refining &amp; Petrochemicals</u></b>	<b><u>Marketing</u></b>	<b><u>Consolidation adjustments</u></b>	<b><u>Consolidated</u></b>
Total non current assets	6,994,475,719	998,339,264	(2,426,188,031)	5,566,626,952
Total current assets	2,063,647,224	1,495,709,862	(641,684,971)	2,917,672,115
<b>TOTAL ASSETS</b>	<b><u>9,058,122,943</u></b>	<b><u>2,494,049,126</u></b>	<b><u>(3,067,873,002)</u></b>	<b><u>8,484,299,067</u></b>
Total equity	4,214,578,353	1,000,502,775	(2,463,915,963)	2,751,165,165
Total non-current liabilities	861,198,892	441,542,686	46,120,645	1,348,862,223
Total current liabilities	3,982,345,698	1,052,003,665	(650,077,684)	4,384,271,679
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>9,058,122,943</u></b>	<b><u>2,494,049,126</u></b>	<b><u>(3,067,873,002)</u></b>	<b><u>8,484,299,067</u></b>
Capital expenditure	270,165,336	79,572,990	(189,202)	349,549,124

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

**2017 Income Statement information**

	<u>USD</u>					
	<u>Refining</u>	<u>Petrochemicals</u>	<u>Amounts not allocated between Refining &amp; Petrochemicals segments</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues "external customers"	1,511,573,524	191,326,498		1,390,107,306	-	3,093,007,328
Net revenues "inter segment"	1,076,569,662	-		6,688,543	(1,083,258,205)	-
Cost of sales	(2,429,677,743)	(203,615,366)		(1,257,077,649)	1,103,740,002	(2,786,630,756)
<b>Gross margin</b>	<b>158,465,443</b>	<b>(12,288,868)</b>		<b>139,718,200</b>	<b>20,481,797</b>	<b>306,376,572</b>
Selling, general and administrative expenses	(58,077,836)	(8,020,852)		(104,121,069)	(20,663,712)	(190,883,469)
Other operating income/(expenses), net	(41,638,083)	(55,520)		(14,503,171)	(1,755,635)	(57,952,409)
<b>Operating margin (EBIT)</b>	<b>58,749,524</b>	<b>(20,365,240)</b>		<b>21,093,960</b>	<b>(1,937,550)</b>	<b>57,540,694</b>
Financial expenses, net			(28,975,491)	(3,076,932)	(647,509)	(32,699,932)
Net foreign exchange result			(13,611,952)	13,027,403	-	(584,549)
<b>Profit/(loss) before income tax</b>	<b>58,749,524</b>	<b>(20,365,240)</b>	<b>(42,587,443)</b>	<b>31,044,431</b>	<b>(2,585,059)</b>	<b>24,256,213</b>
Income tax			-	(3,550,756)	-	(3,550,756)
<b>Net Profit/(Loss)</b>	<b>58,749,524</b>	<b>(20,365,240)</b>	<b>(42,587,443)</b>	<b>27,493,675</b>	<b>(2,585,059)</b>	<b>20,705,457</b>
Depreciation and amortisation	63,828,747	15,060,788		18,291,923	(1,119,464)	96,061,994

	<u>RON</u>					
	<u>Refining</u>	<u>Petrochemicals</u>	<u>Amounts not allocated between Refining &amp; Petrochemicals segments</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues "external customers"	6,157,545,907	779,387,622	-	5,662,741,122	-	12,599,674,651
Net revenues "inter segment"	4,385,514,175	-		27,246,449	(4,412,760,624)	-
Cost of sales	(9,897,535,254)	(829,447,555)		(5,120,831,511)	4,496,195,272	(11,351,619,048)
<b>Gross margin</b>	<b>645,524,828</b>	<b>(50,059,933)</b>		<b>569,156,060</b>	<b>83,434,648</b>	<b>1,248,055,603</b>
Selling, general and administrative expenses	(236,585,873)	(32,673,743)		(424,147,587)	(84,175,696)	(777,582,899)
Other operating income/(expenses), net	(169,616,895)	(226,166)		(59,080,117)	(7,151,755)	(236,074,933)
<b>Operating margin (EBIT)</b>	<b>239,322,060</b>	<b>(82,959,842)</b>		<b>85,928,356</b>	<b>(7,892,803)</b>	<b>234,397,771</b>
Financial expenses, net			(118,034,560)	(12,534,190)	(2,637,693)	(133,206,443)
Net foreign exchange result			(55,449,648)	53,068,429	-	(2,381,219)
<b>Profit/(loss) before income tax</b>	<b>239,322,060</b>	<b>(82,959,842)</b>	<b>(173,484,208)</b>	<b>126,462,595</b>	<b>(10,530,496)</b>	<b>98,810,109</b>
Income tax			-	(14,464,360)	-	(14,464,360)
<b>Net Profit/(Loss)</b>	<b>239,322,060</b>	<b>(82,959,842)</b>	<b>(173,484,208)</b>	<b>111,998,235</b>	<b>(10,530,496)</b>	<b>84,345,749</b>
Depreciation and amortisation	260,012,784	61,351,626		74,513,378	(4,560,250)	391,318,138

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



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

In total net revenues are included customers that own more than 10% of total sales (i.e. KazMunayGas Trading AG), their value amounting USD 1,174 million in 2018 and USD 894 million in 2017.

**2017 Statement of financial position information**

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

<b>RON</b>	<b>Refining &amp; Petrochemicals</b>	<b>Marketing</b>	<b>Consolidation adjustments</b>	<b>Consolidated</b>
Total non current assets	7,071,396,102	992,016,439	(2,427,494,908)	5,635,917,633
Total current assets	2,365,095,579	1,559,592,554	(700,737,114)	3,223,951,019
<b>TOTAL ASSETS</b>	<b><u>9,436,491,681</u></b>	<b><u>2,551,608,993</u></b>	<b><u>(3,128,232,022)</u></b>	<b><u>8,859,868,652</u></b>
Total equity	4,382,133,633	945,085,009	(2,457,994,894)	2,869,223,748
Total non-current liabilities	376,624,317	19,815,938	25,632,700	422,072,955
Total current liabilities	4,677,733,731	1,586,708,046	(695,869,828)	5,568,571,949
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>9,436,491,681</u></b>	<b><u>2,551,608,993</u></b>	<b><u>(3,128,232,022)</u></b>	<b><u>8,859,868,652</u></b>
Capital expenditure	245,054,312	103,036,795	(367,742)	347,723,365

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

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

**2. Geographical segments**

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
<b>Romania</b>	2,414,901,767	1,860,214,911	9,837,343,838	7,577,771,461
<b>Export</b>	1,565,641,601	1,232,792,417	6,377,797,626	5,021,903,190
<i>out of which</i>				
Petroleum products	1,464,023,531	1,132,266,129	5,963,846,256	4,612,399,303
Petrochemical products	101,618,070	100,526,288	413,951,370	409,503,887
<b>Total</b>	<u>3,980,543,368</u>	<u>3,093,007,328</u>	<u>16,215,141,464</u>	<u>12,599,674,651</u>

**25. RELATED PARTIES**

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

<u>Name of related party</u>	<u>Nature of relationship</u>
KMG International N.V.	Majority Shareholder
Byron Shipping Ltd.	Company owned by KMG International Group
Byron Shipping SRL	Company owned by KMG International Group
Dyneff SA	Associate of KMG International Group
Global Security Systems S.A.	Company owned by KMG International Group
Kazmotransflot	Company affiliated to KMG International Group
KazMunayGas Engineering B.V.	Company owned by KMG International Group
KazMunayGas –Engineering LLP	Company owned by KMG International Group
KazMunayGas Trading AG	Company owned by KMG International Group
KMG Rompetrol S.R.L.	Company owned by KMG International Group
KMG Rompetrol Services Center	Company owned by KMG International Group
Midia Marine Terminal S.R.L.	Company owned by KMG International Group
Oilfield Exploration Business Solutions S.A.	Company owned by KMG International Group
Palplast S.A.	Company owned by KMG International Group
Rominserv S.A.	Company owned by KMG International Group
Rominserv Valves Iaifo SRL	Company owned by KMG International Group
Rompetrol Albania Downstream Sh.A.	Company owned by KMG International Group
Rompetrol Albania Wholesale Sh.A.	Company owned by KMG International Group
Rompetrol Bulgaria JSC	Company owned by KMG International Group
Rompetrol Energy S.A.	Company owned by KMG International Group
Rompetrol Financial Group S.R.L.	Company owned by KMG International Group
Rompetrol Georgia LLC	Company owned by KMG International Group
Rompetrol Moldova SA	Company owned by KMG International Group
Rompetrol Ukraine LLC	Joint Venture of KMG International
Rompetrol Well Services S.A.	Company owned by KMG International Group
Tengizchevroil LLP	Company affiliated to KMG International Group
TRG Petrol Anonim Sirketi	Company owned by KMG International Group
Fondul de Investitii in Energie Kazah-Roman SA	Company owned by KMG International Group
Uzina Termoelectrica Midia S.A.	Associate of KMG International Group

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. For the year ended December 31, 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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**25.RELATED PARTIES (continued)**

Name of related party	Receivables and other assets			
	31-Dec-18 USD	31-Dec-17 USD	31-Dec-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	3,350,943	4,711,700	13,650,401	19,193,581
Rominserv S.A.	3,859,140	1,151,215	15,720,593	4,689,589
KMG International N.V.	72,433,050	74,225,085	295,063,272	302,363,306
KMG Rompetrol S.R.L	1,184,681	2,479,955	4,825,917	10,102,345
KMG Rompetrol SRL - cash pooling	115,219,727	112,797,295	469,359,080	459,491,061
Oilfield Exploration Business Solutions S.A.	995,514	5,089,414	4,055,326	20,732,237
Rompetrol Well Services S.A.	117,393	285,401	478,212	1,162,610
KMG Rompetrol Services Center	15,074	18,150	61,405	73,936
Palplast S.A.	1,204,332	1,373,225	4,905,967	5,593,969
Rompetrol Bulgaria JSC	2,930,937	3,167,265	11,939,465	12,902,171
Rompetrol Moldova SA	66,006	6,303	268,882	25,676
KazMunayGas Engineering B.V.	3,573	3,573	14,555	14,555
Rompetrol Energy S.A.	589	617	2,399	2,513
Byron Shipping SRL	2,498	2,458	10,176	10,013
Rompetrol Albania Wholesale Sh.A.	17,076	13,069	69,561	53,238
Midia Marine Terminal S.R.L.	264,041	279,060	1,075,597	1,136,779
Rominserv Valves IaiFo SRL	40,742	22,555	165,967	91,880
Rominserv Kazakhstan LTD	168,167	168,167	685,045	685,045
Rompetrol Ukraine LLC	-	8,254	-	33,623
Uzina Termoelectrica Midia S.A.	3,165,953	2,175,925	12,896,826	8,863,848
Global Security Systems S.A.	190,430	182,644	775,736	744,019
Tengizchevroil LLP	-	562,412	-	2,291,042
TRG Petrol Anonim Sirketi	3,770,408	2,703,679	15,359,134	11,013,707
<b>Total</b>	<b>209,000,274</b>	<b>211,427,421</b>	<b>836,024,382</b>	<b>861,270,743</b>

Name of related party	Payables, loans and other liabilities			
	31-Dec-18 USD	31-Dec-17 USD	31-Dec-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	530,647,483	550,694,435	2,161,645,587	2,243,308,850
Rominserv S.A.	47,087,456	38,048,899	191,815,461	154,995,995
KMG International N.V.	23,740,294	19,814,422	96,708,462	80,716,029
KMG International N.V.- Short term debt - principal	59,815,343	127,660,155	243,663,781	520,036,407
KMG International N.V.- Short term debt - interest	2,067,004	574,327	8,420,147	2,339,578
KMG Rompetrol S.R.L	15,299,210	17,646,134	62,322,862	71,883,291
KMG Rompetrol SRL - cash pooling	125,704,051	115,317,058	512,068,022	469,755,567
Oilfield Exploration Business Solutions S.A.	241,107	238,318	982,173	970,812
Rompetrol Well Services S.A.	97,936	118,864	398,952	484,204
Rompetrol Well Services S.A. - Short term debt - principal	8,419,965	8,814,072	34,299,569	35,905,004
Rompetrol Well Services S.A. - Short term debt - interest	-	-	-	-
KMG Rompetrol Services Center	1,562,076	1,075,850	6,363,273	4,382,583
Rompetrol Bulgaria JSC	114,708	108,992	467,275	443,990
Rompetrol Moldova SA	1,681,652	3,656,976	6,850,378	14,897,057
Rompetrol Financial Group SRL - Short term debt - principal	28,230,200	29,551,550	114,998,543	120,381,194
Rompetrol Financial Group SRL - Short term debt - interest	674,156	1,346,494	2,746,242	5,485,078
Byron Shipping Ltd.	2,219	2,321	9,039	9,455
Midia Marine Terminal S.R.L.	37,262,031	36,568,596	151,790,609	148,965,833
Midia Marine Terminal S.R.L.- Short term debt - principal	6,679,780	6,992,436	27,210,752	28,484,387
Midia Marine Terminal S.R.L. - Short term debt - interest	1,665,039	1,258,156	6,782,703	5,125,224
Rominserv Valves IaiFo SRL	23,759	16,379	96,785	66,721
Uzina Termoelectrica Midia S.A.	7,808,396	2,896,375	31,808,282	11,798,673
Rompetrol Georgia LLC	16	17	65	69
Global Security Systems S.A.	402,278	790,637	1,638,720	3,220,739
Tengizchevroil LLP	17,235	-	70,208	-
TRG Petrol Anonim Sirketi	2,702	145	11,007	591
<b>Total</b>	<b>899,246,096</b>	<b>963,191,608</b>	<b>3,663,168,897</b>	<b>3,923,657,331</b>

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**25.RELATED PARTIES (continued)**

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

Name of related party	Sales and other revenues			
	31-Dec-18 USD	31-Dec-17 USD	31-Dec-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	1,173,841,219	893,975,771	4,781,759,590	3,641,699,701
Rominserv S.A.	857,812	823,328	3,494,383	3,353,909
KMG Rompetrol S.R.L	172,845	149,019	704,101	607,044
Rompetrol S.A.	3,571	4,659	14,547	18,979
Rompetrol Well Services S.A.	1,045,155	762,747	4,257,543	3,107,126
Palplast S.A.	14,774	13,302	60,183	54,187
Rompetrol Bulgaria JSC	47,495,572	37,754,492	193,477,962	153,796,699
Rompetrol Moldova SA	225,993,001	183,851,238	920,605,089	748,936,403
KMG Rompetrol Services Center	134,717	133,623	548,783	544,327
Midia Marine Terminal S.R.L.	576,399	442,354	2,348,019	1,801,973
Byron Navodari	24,584	22,084	100,145	89,961
Rominserv Valves Iaifo SRL	16,546	9,895	67,402	40,308
Uzina Termoelectrica Midia S.A.	18,125,456	15,768,979	73,835,858	64,236,513
Global Security Systems S.A.	105,309	99,992	428,987	407,327
TRG Petrol Anonim Sirketi	17,839,452	25,681,554	72,670,792	104,616,378
	<b>1,486,246,412</b>	<b>1,159,493,037</b>	<b>6,054,373,384</b>	<b>4,723,310,835</b>

Name of related party	Nature of transaction	Purchases and other costs			
		31-Dec-18 USD	31-Dec-17 USD	31-Dec-18 RON	31-Dec-17 RON
KazMunayGas Trading AG	Purchase of crude oil and other raw materials	2,960,839,109	2,260,170,506	12,061,274,194	9,207,030,573
Rominserv S.A.	Acquisition and maintenance of fixed assets	93,943,324	89,982,478	382,687,525	366,552,622
KMG International N.V.	Management services	11,857,854	13,535,368	48,304,154	55,137,675
KMG Rompetrol S.R.L	Management services	48,767,585	34,959,120	198,659,634	142,409,471
Rompetrol S.A.	Management services	34,680	26,294	141,272	107,111
Rompetrol Financial Group S.R.L.	Environmental services	1,695,697	1,194,463	6,907,591	4,865,764
Rompetrol Well Services S.A.	Interest on loan	510,526	356,125	2,079,679	1,450,711
KMG Rompetrol Services Center	Shared services	7,508,052	6,063,242	30,584,801	24,699,223
Midia Marine Terminal S.R.L.	Handling services/Transit	15,708,962	19,148,253	63,992,028	78,002,323
Byron Shipping SRL	Shipping services	-	-	-	-
Rominserv Valves Iaifo SRL	Valves	94,315	95,006	384,202	387,016
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	33,147,428	27,956,761	135,029,363	113,884,662
Global Security Systems S.A.	Security and protection services	3,805,717	3,574,568	15,502,969	14,561,360
Tengizchevroil LLP	Liquefied Petroleum Gas	554,883	5,015,983	2,260,371	20,433,108
		<b>3,178,468,132</b>	<b>2,462,078,167</b>	<b>12,947,807,783</b>	<b>10,029,521,619</b>

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

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, through a Government Ordinance, the shareholder became Ministry of Economy Trade and Business Environment ("MECMA") until May 2013, when following MECMA reorganization the new holder became Ministry of Economy ("ME"). Later it was renamed the Ministry of Energy, Small and Medium Enterprises and Business Environment. At the moment it is named the Ministry of Energy.

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

The amount of remuneration for key management personnel for 2018 was of USD 0.97 million (2017: USD 0.75 million), representing short term benefits and bonuses.

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**26.EARNINGS PER SHARE**

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

	<u>2018</u> USD	<u>2017</u> USD	<u>2018</u> RON	<u>2017</u> RON
<b>Earnings</b>				
Profit/(Loss) for the year attributable to ordinary equity holders of the parent entity	(27,242,482)	19,552,126	(110,974,975)	79,647,541
<b>Number of shares</b>				
Weighted average number of shares for the purpose of basic earnings per share (see Note 11)	44,109,205,726	44,109,205,726	44,109,205,726	44,109,205,726
<b>Earnings per share (US cents/share)</b>				
Basis	(0.062)	0.044	(0.253)	0.179

**27.CONTINGENCIES**

a) Related to the Parent's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Parent based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 27). The management is confident that the Parent is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Parent processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Parent were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Parent cancelled such invoices. The Parent is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Parent liable for paying such excises; the Parent appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.3 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.

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

- 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 million (RON 1.75 million related to Rompetrol Rafinare SA).

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**27. CONTINGENCIES (continued)**

- 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 million (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 .

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**28.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.

Meanwhile, the companies also challenged on May 30, 2016 the Orders to the superior prosecutor. The submission was rejected in December 2016.

Considering the nature of the allegations submitted by DIICOT, the KMGI companies applied for a motion of disjoining (*cerere de disjungere* in Romanian) in order to have two different cases which shall settle the allegations for RRC' privatization and post-privatization period – one file and a second one for the allegations related to the issuance of the bonds by RRC (OUG 118/2003). No reply received yet from DIICOT on this topic.

Since the KMGI companies had no capacity in the file till 2016 and it seems the entire process (with minor exceptions) of gathering the evidences by DIICOT have been performed before May 2016, the Companies submitted on April 7, 2017 their own application for, on the one hand, evidences to be attached to the file in order to defend and one the other hand to be redone some evidences (such as expertise report) performed before 2016. No reply received yet from DIICOT on this topic.

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

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**28.LEGAL MATTERS (continued)**

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.

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.



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**28.LEGAL MATTERS (continued)**

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

In March 2012, the National Agency for Tax Administration issued to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million (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.

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.

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**28.LEGAL MATTERS (continued)**

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

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

Even if Rompetrol Downstream to timely and fully observed its obligation to supply RATB with needed quantities of fuel during those 4 years, the related IT system was delivered gradually until September 16<sup>th</sup>, 2015, which lead to 4 court case (one per each agreement) initiated by RATB. The amounts requested by RATB concerns the enforcement of penalty clause in amount of 15% of frame contract turnover for not observing the contractual obligations relating to the implementation of the IT system;

- a) Case 1 - On October 16<sup>th</sup>, 2015 RATB submitted to Court the claim for damages in amount of RON 62.4 million (about USD 15 million) (based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2617/25.10.2011). On October 27<sup>th</sup>, 2015, based on the tender book terms and conditions, RATB executed the bank letter guarantee provided by DWS for the amount of RON 5.7 million. Initially, Downstream managed to win the case at the first court, based on a legal procedural exception. However, both parties challenged afterwards the first court rule by way of a second appeal. The appeal was admitted by the higher court (Bucharest Court of Appeal) and the file was re-sent in 2017 for a proper judgment on the merits of the case.

On January 25, 2018, the court has rejected the RATB's claim and admitted partially Downstream claim for reimbursement for the illegally enforcement by RATB of the LBG in amount of RON 5.7 million as well as the indemnity of RON 0.28 million as interests for delay payments by RATB of the fuel supplied RATB filled in an appeal to be settled by the Bucharest Court of Appeal. Next hearing was scheduled for February 27, 2019 and the appeal was rejected. Case closed.

- b) Case 2 - RATB claimed for RON 65.5 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-2907/17.10.2012). On 1 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision no. 321/30 January 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as unsubstantiated and the legal case was closed.
- c) Case 3 - RATB claimed for RON 65.1 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3126/18.10.2013). On 14 November 2016, the court decided to reject the RATB' s claim on the grounds of the inadmissibility exception of the summons pursuant to the non-performance of the previous procedure by RATB. By way of a final Decision on 20 April 2017, the Bucharest Court of Appeal rejected the second appeal filed by RATB as groundless and the legal case was closed.
- d) Case 4 - RATB claimed for RON 5.7 million (as damages conventionally assessed based on the framework agreement no. 47-365/2011 and subsequent agreement no. 46-3241/17.10.2014). First hearing was scheduled for 25 October 2016. At that hearing term, the court suspended the case' judgement until Case 1 will be definitively settled.

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**28.LEGAL MATTERS (continued)**

**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 defense 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.

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**28.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 Administratia Porturilor Maritime of the provisions of art. 9 of Law no. 21/1996, to sanction the said company in accordance with the law and to render it liable to perform, subject to legal terms and conditions, 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 of 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.

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**28.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.

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**28.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.
- 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).

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**28.LEGAL MATTERS (continued)**

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.

**29.COMMITMENTS**

**Environmental commitments**

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

The Company has recognized a provision for restoration cost at its Vega location, see Note 17.

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

**Operating leases**

The Group has entered into operating leases on plots, gas stations, vehicles, administrative buildings and other assets:

	<b>2018</b>	<b>2017</b>
Within one year	6,212,238	6,250,889
After one year but not more than five years	21,922,056	23,488,413
More than five years	34,592,241	39,238,122
	<b><u>62,726,534</u></b>	<b><u>68,977,424</u></b>

Rompetrol Downstream S.R.L. has certain concession and rental agreements with local authorities and other companies/individuals in Romania for plots of land. Usually the conditions for these agreements are the following: terms from 5 to 49 years, fixed or variable fees per year. According to these agreements, the approximate amount to be paid in 2019 is USD 5.1 million (USD 5.47 million in 2018).

**Other commitments**

As of December 31,2018, Rompetrol Rafinare S.A. has contracted capital commitments for projects related to capital maintenance, authorizations and compliance with Euro standards at the Petromidia refinery of USD 28.63 million (2017: USD 28.83 million). As of December 31, 2018, Rompetrol Downstream S.R.L has contracted capital commitments of USD 0.89 million (2017: USD 3.9 million).

**Sale and purchase commitments**

As of December 31, 2018, the Group's main commitments relate to Rompetrol Rafinare S.A. which has non-group commitments for purchases of raw materials and utilities of USD 2,318.15 million (2017: USD 2,466.58 million) and for sales of petroleum, petrochemicals products and utilities sales of USD 1,703.47 million (2017: USD 1,967.94 million).

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**30.1. Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of bank debt and shareholder loans (see Note 15), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the "Consolidated Statement of Changes in the Shareholders' Equity".

**30.2. Gearing ratio**

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Debt (excluding shareholder loans and related parties)	267,367,797	238,750,435
Cash and cash equivalents	<u>(11,477,183)</u>	<u>(12,592,193)</u>
<b>Net debt</b>	<b>255,890,614</b>	<b>226,158,242</b>
Equity (including shareholder loans and related parties)	782,915,828	880,557,756
<b>Net debt to equity ratio</b>	<b>0.33</b>	<b>0.26</b>

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Financial assets</b>		
Trade and other receivables	378,663,943	410,686,063
Long-term receivables	3,250,669	1,599,013
Available for sale investments	18,583	18,583
Derivative financial instruments	2,608,512	-
Cash and cash equivalents	<u>11,477,183</u>	<u>12,592,193</u>
<b>TOTAL FINANCIAL ASSETS</b>	<b>396,018,890</b>	<b>424,895,852</b>
<b>Financial liabilities</b>		
Long-term borrowings	224,103,204	-
Derivative financial instruments	76,580	48,387
Short term borrowings from shareholders	107,551,244	176,211,784
Other non-current liabilities	195,757	207,676
Trade and other payables	870,862,953	888,094,595
Short-term borrowings banks	<u>26,254,673</u>	<u>224,063,232</u>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1,229,044,411</b>	<b>1,288,625,674</b>

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



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

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

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

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

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

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

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

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Group enters into derivative financial instruments with various counterparties. As at 31 December 2018, the marked to market value of derivative position is for financial instruments recognized at fair value.

**30.4. Fair value hierarchy**

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

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

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**30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

	<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade and other receivables	378,663,943	378,663,943	-	-
Long-term receivables	3,250,669	3,250,669	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	2,608,512	2,608,512	2,608,512	-
Cash and cash equivalents	<u>11,477,183</u>	<u>11,477,183</u>	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b><u>396,018,890</u></b>	<b><u>396,018,890</u></b>	<b><u>2,608,512</u></b>	<b><u>-</u></b>
<b>Financial liabilities</b>				
Long-term borrowings	224,103,204	-	-	224,103,204
Derivative financial instruments	76,580	-	76,580	-
Short term borrowings from shareholders	107,551,244	107,551,244	-	-
Other non-current liabilities	195,757	195,757	-	-
Trade and other payables	870,862,953	870,862,953	-	-
Short-term borrowings banks	<u>26,254,673</u>	<u>26,254,673</u>	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b><u>1,229,044,411</u></b>	<b><u>1,004,864,627</u></b>	<b><u>76,580</u></b>	<b><u>224,103,204</u></b>

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

During the reporting period ending 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**30.5 Derivative financial instruments**

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

**Balance Sheet:**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Derivative financial asset	2,608,512	-
Derivative financial liability	<u>(76,580)</u>	<u>(48,387)</u>
<b>Net position - asset/(liability)</b>	<b>2,531,932</b>	<b>(48,387)</b>

The derivative instruments balance in respect of fair value hedge against the inventories includes an adjustment of USD 0.523 million.

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**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

**Income Statement:**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unrealised (gains)	-	-
<b>Net position - (gain)/loss - in Cost of sales</b>	-	-
Realised gains/(losses) - net	882,846	11,545,320
<b>Total position - loss/(gain) - in Cost of sales</b>	<b>882,846</b>	<b>11,545,320</b>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Derivative asset/(liability) 2017</b>	<b>(48,387)</b>	<b>(317,790)</b>
Forex unrealized (hedging of forex)	-	-
Cash payments	2,580,319	(42,808)
<b>Reserves</b>	<b>-</b>	<b>312,211</b>
<b>Derivative asset/(liability) 2018</b>	<b>2,531,932</b>	<b>(48,387)</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.

**30.6 Market risk**

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

**30.7. Foreign currency risk management**

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

**30.8. Foreign currency sensitivity analysis**

The Group is mainly exposed to the RON and EUR currencies.

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity here the USD strengthens 5% against the relevant currency. For a 5% weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

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

	USD	RON		EUR	
		2018	2017	2018	2017
Profit/(loss)	5%	(165,782)	916,598	789,023	(58,561)
	-5%	165,782	(916,598)	(789,023)	58,561

**30.9. Interest rate risk management**

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Group to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Group's borrowings, are provided in Notes 12 and 16.

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 interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's: profit for the year ended 31 December 2018 would decrease/increase by USD 623 thousand (2017: decrease/increase by USD 858 thousand).

**30.10. Liquidity risk management**

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments, including interest payable until the end of the contracts for finance leasing and loans.

Year ended December 31, 2018	Less than 1 month or on demand	<3 months	3-12 months	1-5 years	>5 years	Total
Long-term debt	-	2,953,080	8,859,239	239,852,962	-	251,665,281
Trade and other payables	857,873,871	12,516,009	472,668	406	-	870,862,954
Derivative financial instruments	-	25,947,213	-	-	-	25,947,213
Short-term borrowings from related parties	5,670,511	4,128,006	103,184,351	-	-	112,982,868
Short-term debt	-	417,888	25,794,330	1,244,818	-	27,457,036
Other non-current liabilities	195,757	-	-	-	-	195,757
	<b>863,740,139</b>	<b>45,962,196</b>	<b>138,310,588</b>	<b>241,098,186</b>	<b>-</b>	<b>1,289,111,109</b>

Year ended December 31, 2017	Less than 1 month or on demand	<3 months	3-12 months	1-5 years	>5 years	Total
Long-term debt	-	-	-	-	-	-
Trade and other payables	811,717,601	73,164,721	3,212,273	-	-	888,094,595
Derivative financial instruments	-	48,387	-	-	-	48,387
Short-term borrowings from related parties	176,211,784	1,598,057	4,766,109	-	-	182,575,950
Short-term debt	-	1,812,154	224,752,807	-	-	226,564,961
Other non-current liabilities	-	-	-	207,676	-	207,676
	<b>987,929,385</b>	<b>76,623,319</b>	<b>232,731,189</b>	<b>207,676</b>	<b>-</b>	<b>1,297,491,569</b>

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

**30.11. Commodity price risk**

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

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, at the beginning of 2018, the hedge strategy for 2018 was split between futures and options.

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

The net impact of the commodity hedges was USD (1.2) million (2017: net gain of USD 8.5 million).

**30.12 Credit risk**

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

**Trade receivables**

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to KazMunayGas Trading AG, a related party represent 29% of the Group's revenues. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

**Financial instruments and bank deposits**

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

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**31. SUBSEQUENT EVENTS**

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until April 10, 2019.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 11.2 million has been extended until May 28, 2019.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until April 14, 2019.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until May 3, 2019.