ROMPETROL RAFINARE SA

UNAUDITED STANDALONE FINANCIAL STATEMENTS

Prepared in compliance with
Order of the Minister of Public Finance no. 2844/2016
For approval of the accounting regulations in compliance with the International Financial Reporting Standards

30 JUNE 2020

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ROMPETROL RAFINARE SA
STATEMENT OF THE FINANCIAL POSITION
as at 30 June 2020
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	June 30, 2020	December 31, 2019
Intangible assets	3	23,677,497	22,713,799
Goodwill	4	152,720	152,720
Property, plant and equipment	5	3,764,565,258	3,516,851,506
Rights of use assets	6	5,099,298	9,018,898
Investments in subsidiaries	7	1,629,020,055	1,629,020,055
Deferred tax asset	23	110,131,585	110,131,585
Total non current assets		**5,532,646,413**	**5,287,888,563**
Inventories, net	8	510,084,593	822,822,149
Receivables and prepayments, net	9	1,316,885,432	1,784,692,732
Derivative Financial Instruments	30	25,983,033	2,585,313
Cash and cash equivalents	10	38,983,236	22,373,528
Total current assets		**1,891,936,294**	**2,632,473,722**
TOTAL ASSETS		**7,424,582,707**	**7,920,362,285**
Subscribed share capital	11	4,410,920,573	4,410,920,573
Share premium	11	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	11	519,292,756	533,398,479
Other reserves	11	3,412,104,525	3,386,268,737
Accumulated losses		(6,581,135,134)	(6,242,510,389)
Current year result		(592,114,118)	(352,730,468)
Total equity		**1,401,705,709**	**1,967,984,039**
Hybrid loan - long-term portion	11	69,291,612	69,291,612
Long-term borrowings from banks	15	384,044,361	613,184,904
Provisions	17	342,060,438	342,060,438
Long-term lease debts	16	2,538,226	5,368,671
Total non-current liabilities		**797,934,637**	**1,029,905,625**
Trade and other payables	12	5,037,010,466	4,701,068,748
Contract liabilities	13	92,770,723	47,196,182
Short-term lease debts	16	4,581,610	6,451,650
Derivatives	30	60,412	15,786,131
Short-term borrowings from related parties	14	52,733,499	103,891,017
Short-term borrowings from banks	14	37,785,652	48,078,893
Total current liabilities		**5,224,942,361**	**4,922,472,621**
TOTAL LIABILITIES AND EQUITY		**7,424,582,707**	**7,920,362,285**

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ROMPETROL RAFINARE SA
INCOME STATEMENT
for the financial year ended 30 June 2020
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	January - June 2020	**January - June 2019**
Net revenues from contracts with customers	3,882,494,802	7,247,881,365
Cost of sales	(4,127,279,901)	(7,110,502,660)
Gross profit/(loss)	**(244,785,099)**	**137,378,705**
Selling, general and administrative expenses	(197,125,528)	(159,788,304)
Other operating expenses	(161,787,932)	(27,571,235)
Other operating income	166,669,520	62,312,243
Operating profit/(loss)	**(437,029,040)**	**12,331,410**
Financial expenses	(98,178,166)	(105,982,484)
Financial revenues	9,110,068	11,312,236
Net foreign exchange gains / (losses)	(66,016,980)	(55,872,680)
(Loss) before income tax	**(592,114,118)**	**(138,211,518)**
Deferred tax	-	-
Net (Loss)	**(592,114,118)**	**(138,211,518)**
Earnings per share *(bani/share)* **Basis**	(1.34)	(0.31)

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ROMPETROL RAFINARE SA
STATEMENT OF OTHER COMPREHENSIVE INCOME
for the financial year ended 30 June 2020
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	January - June 2020	**January - June 2019**
Net (Loss)	**(592,114,118)**	**(138,211,518)**
Other comprehensive income	**-**	**-**
Other comprehensive income to be reclassified to income statement in subsequent periods (net of tax):	-	-
Gains / (losses) from derivatives	25,835,789	(6,179,010)
Total comprehensive income to be reclassified in income statement in subsequent periods (net of tax):	**25,835,789**	**(6,179,010)**
Total other comprehensive result for the year, net of tax	**25,835,789**	**(6,179,010)**
Total comprehensive result for the year, net of tax	**(566,278,330)**	**(144,390,528)**

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ROMPETROL RAFINARE SA
STATEMENT OF CASH FLOWS
For the financial year ended 30 June 2020
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	June 30, 2020	June 30, 2019
Net result before income tax		**(592,114,118)**	**(138,211,518)**
Adjustments for:			
Depreciation and amortisation	19, 20	170,663,763	167,312,240
Provisions for receivables and inventories (incl write-off)	21	(4,563,222)	(34,182,053)
Expenses with penalties		42,535	772,998
Interest expenses		98,178,166	105,982,484
Inrerest income	22	(9,110,068)	(10,433,104)
Income from dividends		-	(437,106)
Other non-monetary adjustments		2,391,239	-
Unrealised foreign exchange (gain)/loss	22	10,523,785	(78,114,626)
Cash generated from / (used in) operations before working capital changes		**(323,987,920)**	**12,689,315**
Net working capital changes in:			
Receivables and prepayments		508,974,219	(208,360,585)
Inventories		317,454,292	(184,947,475)
Trade and other payables and contract liabilities, including payables variation for capital expenditures		167,925,290	533,511,602
Change in working capital		**994,353,801**	**140,203,542**
Cash receipt / (payments) for derivatives, net		(7,418,747)	(251,109)
Net cash provided by/(used in) operating activities		**662,947,134**	**152,641,748**
Cash flows from investing activities			
Purchase of property, plant and equipment		(414,750,434)	(95,908,688)
Purchase of intangible assets		(3,062,416)	(441,898)
Net cash used in investing activities		**(417,812,850)**	**(96,350,586)**
Cash flows from financing activities			
Cash pooling receipt / (payments), net		166,715,337	309,564,975
Short - term loans received from / (repaid) to banks		(10,208,223)	(56,129,429)
Long - term loans received from / (repaid) to banks		(238,360,396)	99,126,521
Short - term loans repaid to shareholders and related parties		(43,677,500)	(301,893,603)
Repayment / remeasurement of lease liabilities		(5,001,169)	(1,529,874)
Interest and bank charges paid, net		(97,992,626)	(105,982,484)
Net cash from / (used in) financing activities		**(228,524,576)**	**(56,843,894)**
Increase / (Decrease) in cash and cash equivalents		**16,609,708**	**(552,732)**
Cash and cash equivalents at the beginning of period		**22,373,528**	**19,450,444**
Cash and cash equivalents at the end of the period		**38,983,236**	**18,897,712**

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ROMPETROL RAFINARE SA
STATEMENT OF CHANGES IN EQUITY
for the financial years ended 30 June 2020 and 30 June 2019
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Share capital	Share premium	Acumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1st of January 2019	**4,410,920,573**	**232,637,107**	**(6,279,313,076)**	**674,938,770**	**(107,990,204)**	**3,408,959,991**	**2,340,153,161**
Result carried out from application IFRS 16	-	-	(2,770,652)	-	-	-	**(2,770,652)**
Restated opening balance at 1st of January 2019	**4,410,920,573**	**232,637,107**	**(6,282,083,727)**	**674,938,770**	**(107,990,204)**	**3,408,959,991**	**2,337,382,510**
Net loss for S1 2019	**-**	**-**	**(138,211,518)**	**-**	**-**	**-**	**(138,211,518)**
Revaluation reserves	-	-	20,068,127	(20,068,127)	-	-	-
Gains/losses related to derivative financial instruments	-	-	-	-	-	(6,179,010)	**(6,179,010)**
Total other comprehensive income for S1 2019	**-**	**-**	**20,068,127**	**(20,068,127)**	**-**	**(6,179,010)**	**(6,179,010)**
Total comprehensive income for S1 2019	**-**	**-**	**(118,143,391)**	**(20,068,127)**	**-**	**(6,179,010)**	**(144,390,528)**
30st of June 2019	**4,410,920,573**	**232,637,107**	**(6,400,227,119)**	**654,870,643**	**(107,990,204)**	**3,402,780,981**	**2,192,991,982**
1st of January 2020	**4,410,920,573**	**232,637,107**	**(6,595,240,857)**	**634,998,190**	**(101,599,711)**	**3,386,268,737**	**1,967,984,039**
Net loss for S1 2020	**-**	**-**	**(592,114,118)**	**-**	**-**	**-**	**(592,114,118)**
Revaluation reserves transferred to retained earnings	-	-	14,105,722	(14,105,722)	-	-	-
Gains/losses related to derivative financial instruments	-	-	-	-	-	25,835,789	**25,835,789**
Total other comprehensive income for S1 2020	**-**	**-**	**-**	**-**	**-**	**25,835,789**	**25,835,789**
Total comprehensive income for S1 2020	**-**	**-**	**(592,114,118)**	**-**	**-**	**25,835,789**	**(566,278,330)**
30st of June 2020	**4,410,920,573**	**232,637,107**	**(7,173,249,252)**	**620,892,468**	**(101,599,711)**	**3,412,104,525**	**1,401,705,709**

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1. GENERAL

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

Rompetrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 30 June 2020 is 1,138, respectively 1,157 as at 31 December 2019.

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

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

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

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

The company also prepares consolidated financial statements that have a public character and are available on the website of the company, https://rompetrol-rafinare.kmginternational.com/, at the section Relation with Investors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) The going concern

The financial statements of the Company are prepared on a going concern basis. As at 30 June 2020 and 31 December 2019, the Company net assets amount to RON 1,402 million and RON 1,968 million, respectively. For the years ending 30 June 2020 and 31 December 2019, the Company reported losses of RON 592.1 million and RON 352.7 million, respectively.

The accumulated losses recorded until present are due to the fact that the Company was impacted by the refining activity specificity and the international oil and natural gas market environment, in which it operates, characterized by a significant volatility and low refinery margins in the past years, and also by the volatility of foreign exchange market to which the Company is exposed.

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

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

Management estimates that the evolutions mentioned above, will lead to an improvement of the Company's capacity to sustain its ongoing operations.

The Company's net assets (amounting to RON 1,402 million as at 30 June 2020 and RON 1,968 million as at 31 December 2019, respectively) have decreased to less than a half of the value of share capital (amounting to RON 4,410 as at 30 June 2020 and 31 December 2019 respectively) and the Company's executive management and Board of Directors intends to resolve this situation of the relation between Company's net assets and its share capital, within the timeframe stipulated by the law, based on the stipulations of art.153.24 of company Law no.31/1990, as subsequently amended and in accordance with the statutory decisions adopted.

Considering the Company's plans for 2020, as well as other aspects mentioned above, it is considered that the preparation of financial statements is made under going concern basis.

c) Changes in accounting policies

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2020:

- **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. Management has assessed there is no material impact at Company's level from application of this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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 Company's level from application of this standard.

- **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 based on 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 Company's level from application of this standard.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management has assessed there is no material impact at Company's level from application of this amendments.

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

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

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed there is no material impact at Company's level from application of this amendments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Significant professional judgements, estimates and assumptions

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

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

The matters presented below are considered to be the most important in understanding the professional judgments that affect the preparation of these financial statements and the uncertainties that could affect the result of the operations, the financial position and the cash flows.

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

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

The Company assesses annually whether there is an indication that an asset may be impaired. At annually impairment testing for an asset, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- ***Provision for environmental liability***

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

Additional details on the provisions related to the environment-related obligations are set out in Note 17.

- ***Deferred tax assets***

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

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

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

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

- ***Carrying value of inventories***

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

- ***Provision for litigations***

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Leases***

The Company has several lease contracts that include yearly extension period. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew. The incremental borrowing rates used for discounting is established based on the data obtained from the banks by taking into consideration the asset type, lease agreement currency and the lease term.

f) Financial instruments

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

a. Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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

Derecognition

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

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

Or

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

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

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

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

Impairment of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

b. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:
- Financial liabilities at fair value through profit or loss;
- Loans and Credits.

Derecognition

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

c. Offsetting of financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Impairment of financial assets

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

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

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

g) Property plant and equipment

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings, unless a transfer hasn't been already made during utilization period of the revaluated asset.

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

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

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

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

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

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

h) Intangible assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Investments in subsidiaries

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

Further details on financial assets are provided in Note 7.

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

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

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

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

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

k) Provisions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions are not recognized for future operating losses.

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

Environmental obligations

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

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

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

l) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section j) Impairment of non-financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Lease (see Note 16).

iii. Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

m) Inventories

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

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

n) Trade receivables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

p) Revenue from contracts with customers

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

In recognising revenue, the Company applies the five-step model based on the requirements of IFRS 15:
a) identifying the contract with the customer;
b) identifying performance obligations under the contract;
c) determining the transaction price;
d) allocating the transaction price to performance obligations;
e) recognising revenue at (or during) performance of obligation.

(i) Variable consideration

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

(ii) Volume rebates

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

(iii) Significant financing component

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities

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

q) Interest bearing loans

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

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

r) Borrowings costs

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

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

s) Retirement benefit costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

t) Taxes

- ***Current income tax***

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

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

- ***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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

u) Dividends

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

v) Foreign Currency Transactions

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

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

Currency	30 June 2020	31 December 2019
RON / USD	4.3233	4.2608
RON / EUR	4.8423	4.7793

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

w) Derivative financial instruments

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

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

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

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

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

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

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument;
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

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

Fair value hedge

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss (see Note 19).

Cash Flow Hedge

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

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see Note 19).

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

x) Emission Rights

CO2 emission rights quota are allocated to the Company's refining and petrochemicals operations. For the period 2013 - 2020 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. Rompetrol Rafinare has received his quota allocated for 2019 and for 2020 it was received at the end of February 2020. The Company accounts for the liability resulting from generating of these emissions using the net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective company. Income is recognized only when excess certificates are sold on the market.

y) Fair value measurement

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

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

- In the principal market for the asset or liability;

Or

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

z) Current versus non-current classification

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

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

Or

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

All other assets are classified as non-current.

A liability is current when:

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

Or

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

The Company classifies all other liabilities as non-current.

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

aa) Contingencies

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

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

3. INTANGIBLE ASSETS

	Software / Licenses	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2019	**49,032,640**	**150,123**	**9,641,543**	**58,824,307**
Additions	642,021	-	5,272,536	5,914,557
Transfers*	14,209	687,733	(7,325)	694,617
Closing balance as of December 31, 2019	**49,688,870**	**837,856**	**14,906,754**	**65,433,480**
Additions	376,836	-	2,686,610	3,063,446
Transfers, reclassifications and adjustments*	5,403,027	(1,030)	(5,403,027)	(1,030)
Closing balance as of June 30, 2020	**55,468,733**	**836,826**	**12,190,338**	**68,495,896**
Accumulated amortization				
Opening balance as of January 1, 2019	**(40,733,599)**	**(150,123)**	**-**	**(40,883,722)**
Charge for the year	(1,698,414)	(137,545)	-	(1,835,959)
Closing balance as of December 31, 2019	**(42,432,013)**	**(287,668)**	**-**	**(42,719,681)**
Charge for the year	(2,030,013)	(68,706)	-	(2,098,719)
Closing balance as of June 30, 2020	**(44,462,026)**	**(356,374)**	**-**	**(44,818,400)**
Net book value				
As of December 31, 2019	**7,256,857**	**550,188**	**14,906,754**	**22,713,799**
As of June 30, 2020	**11,006,707**	**480,452**	**12,190,338**	**23,677,497**

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

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

4. GOODWILL

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Furniture and others	Construction in progress	Total
Cost or valuation						
As of January 1, 2019	**192,480,007**	**1,705,635,515**	**3,700,494,879**	**17,028,196**	**179,369,771**	**5,795,008,368**
Acquisitions	-	239,542	1,901,567	18,529	252,510,559	254,670,197
Transfers from CIP	-	12,116,272	94,734,073	1,338	(107,640,866)	(789,183)
Disposals	-	-	(21,544,458)	-	-	(21,544,458)
Transfers and reclassifications*	-	44,177,962	(44,177,962)	-	-	-
As of December 31, 2019	**192,480,007**	**1,762,169,291**	**3,731,408,099**	**17,048,063**	**324,239,464**	**6,027,344,924**
Acquisitions	-	-	1,262,744	120,752	413,365,909	414,749,405
Transfers from CIP	-	42,462,954	74,422,584	2,039,382	(118,923,890)	1,030
Disposals	-	-	(48,927,472)	-	-	(48,927,472)
Transfers and reclassifications*	-	-	3,270	-	-	3,270
As of June 30, 2020	**192,480,007**	**1,804,632,245**	**3,758,169,224**	**19,208,197**	**618,681,483**	**6,393,171,157**
Accumulated depreciation & Impairment						
As of January 1, 2019	**(27,557,579)**	**(97,548,917)**	**(2,036,268,939)**	**(7,956,079)**	**(3,171,485)**	**(2,172,502,999)**
Charge for the year	(1,656,751)	(112,099,288)	(244,779,991)	(998,847)	-	(359,534,877)
Accumulated depreciation of disposals	-	-	21,544,458	-	-	21,544,458
Transfers and reclassifications*	-	102,407	(102,407)	-	-	-
As of December 31, 2019	**(29,214,330)**	**(209,545,798)**	**(2,259,606,879)**	**(8,954,926)**	**(3,171,485)**	**(2,510,493,418)**
Charge for the year	(828,376)	(49,435,232)	(116,236,221)	(536,855)	-	(167,036,683)
Accumulated depreciation of disposals	-	-	48,927,472	-	-	48,927,472
Transfers and reclassifications*	-	-	(3,270)	-	-	(3,270)
As of June 30, 2020	**(30,042,706)**	**(258,981,029)**	**(2,326,918,897)**	**(9,491,782)**	**(3,171,485)**	**(2,628,605,899)**
Net book value as of December 31, 2019	**163,265,677**	**1,552,623,493**	**1,471,801,220**	**8,093,137**	**321,067,979**	**3,516,851,506**
Net book value as of June 30, 2020	**162,437,301**	**1,545,651,215**	**1,431,250,327**	**9,716,416**	**615,509,998**	**3,764,565,258**

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Impairment

No additional depreciation was recorded in the first 6 months of year 2020 and 2019.

- Construction in progress

In the first semester of the year 2020 the significant contribution to the total acquisitions for construction in progress is the ISCIR projects within the two refineries (about RON 95 million), Refinery and Petrochemicals General Turnaround (overhaul project in amount of approximately RON 184 million) the modernisation projects of tanks (approximately RON 15 million), the projects of replacement catalysts (approximately RON 51 million), project Fluid Catalytic Cracking (FCC) Unit Rehabilitation (about RON 22 million).

In 2019 the significant contribution to the total acquisitions for construction in progress is the ISCIR projects within the two refineries (about RON 35 million), Refinery and Petrochemicals annual overhaul (approximately RON 19 million) the modernisation projects of tanks (approximately RON 22 million), the projects of replacement catalysts (approximately RON 15 million), the modernization projects of products loading ramps (about RON 13 million), Modernization of the In Line Blending Unit and Rehabilitation and reconfiguration equipment for Line Blending System (about RON 10 million) the Vapor recovery system at the point of loading CF Vega project (about RON 9 million), LPG recovery from DCU gases (about RON 19 million), a new boiler at heating station Vega (about RON 8 milion) and replacement of reactor 130R1R2R3 (about RON 8 million) and Refinery specific optimisation projects in amount of RON 95 million.

At the end of 2019 the main projects remaining in construction in progress refers to the following ISCIR projects within the two refineries (about RON 59 million), Refinery and Petrochemicals annual overhaul (approximately RON 22 million) the modernisation projects of tanks (approximately RON 23 million), the projects of replacement catalysts (approximately RON 10 million), the modernization projects of products loading ramps (about RON 18 million), Modernization of the In Line Blending Unit and Rehabilitation and reconfiguration equipment for Line Blending System (about RON 14 million), the Vapor recovery system at the point of loading CF Vega project (about RON 11 million), LPG recovery from DCU gases (about RON 22 milion), a new boiler at heating station Vega (about RON 8 milion) and replacement of reactor 130R1R2R3 (about RON 9 milion) and Refinery specific optimisation projects in amount of RON 128 million.

- Disposal

In the first semester of the year 2020 the amount of RON 48.9 million related to the disposed assets it referes to to the replacement of the used catalysts in Naphta Hydrotreating, Vaccum Distillate Hydrofining ,122 DHT (Disel HydroTreater), Kerosene HydroTreater, MTBE (Methyl Tertiary Butyl Ether), New Sulphur Recovery, New Hydrogen Plant and Mild Hydrocracker units.

In 2019 the amount of RON 21.5 million related to the disposed assets it referes to the replacement of the used catalysts in 122 DHT (Disel HydroTreater), CR (Catalytic Reforming) and MTBE (Methyl Tertiary Butyl Ether) units.

- *Capitalization of borrowing costs*

The Company finances its activities including through loans and the cost of debt for the acquisition of assets is capitalized in the cost of the asset, when specific loans have been obtained (investment). In the first semester of the year 2020 and 2019 the interest was not capitalized.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Revaluation of buildings category

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

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

Reconciliation of carrying amount

	Buildings million RON
Carrying amount as at 31 December 2017	**1,625**
Depreciation for the year	(97)
Additions / Disposals / Transfers and reclassifications	80
Carrying amount and fair value as at 31 December 2018	**1,608**
Depreciation for the year	(112)
Additions / Disposals / Transfers and reclassifications	57
Carrying amount and fair value as at 31 December 2019	**1,553**

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

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

	2019 million RON	**2018 million RON**
Cost	2,048	1,991
Accumulated depreciation and impairment	(1,112)	(1,039)
Net carrying amount	**936**	**952**

- *Fixed assets pledged*

The company pledged assets with a net carrying amount of RON 931,271,890 (2019: RON 1,031,368,950), as follows:

- guarantees in favor of banks: RON 759,888,742 (2019: RON 781,794,295);
- guarantees in favor of ANAF: RON 171,383,148 (2019: RON 249,574,655).

5. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

According with the Memorandum of Understanding signed with the Romanian State and approved by Government Decision no. 35/2014, ANAF should remove and revoke the distraint established on 10 September 2010. To this 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 22 April 2019, DIICOT issued an ordinance whereby all participations held by the company to its subsidiaries, as well as part of the movable and immovable property of the company were released from the criminal seizure.

On December 5, 2019 DIICOT issued another Ordinance by which all criminal charges have been dismissed either on merits or because of passing the status of limitation period.

The seizure is lifted entirely but to protect the civil parties, namely Faber and State Authority which manages the State assets, a temporary seizure is kept up to $106m over 4 RRC' installations for a limited period of 30 days. If the said civil parties will not fill in a civil claim to the civil courts against KMGI Group companies, this temporary seizure is also null and void. If they still do, then it is up to the civil court to assess the grounds for keeping such a seizure in place until the civil claim will be settled.

Please note that the ordinance is subject of challenge within 20 days. Both Faber and AAAS and the Group challenged it. The Group challenge filled in on December 27, 2019 concerns the relevant criminal charges to be dismissed on merits and not because of passing the status of limitation. On February 7, 2020 DIICOT rejected the Group challenge against December 5, 2019 Ordinance. The Group submitted to Supreme Court challenge against the DIICOT rejection and the first hearing is scheduled for April 8, 2020. The last term was schedule for May 29, 2020 and the Court postpone it for June 26, 2020 to allow the parties to prepare their defences. On July 10, 2020, the Supreme Court issued the final decision according to which all the complaints formulated against the dismissal ordinance issued on December 5, 2019, issued in file no. 225 / D / P / 2006 by the PICCJ-DIICOT were rejected as inadmissible.

We noticed that Faber submitted a civil claim to the Bucharest Court against both the Group companies and defendants.

On May 25, the Bucharest Court rejected the request of Faber for settlement of the stamp fee that Faber should pay for its claim (approximately $530,000) and on July 8, Bucharest Court annulled Faber's claim as unstamped.

On the other hand, Faber resumed one of the older files by which Faber challenged the increasing of the RRC share capital back in 2003-2005. The hearing is scheduled for April 14 but the case has been suspended due to the emergency enforced since March 16. The next hearing was settled for August 18, 2020.

6. RIGHTS OF USE ASSETS

	Land	Plant and equipment	Vehicles	Total
Initial cost / revalued				
Closing balance at December 31, 2018	-	-	-	-
Change in the beginning balance in accordance with IFRS 16	6,992,941	7,526,480	298,832	14,818,253
Additions in year 2019	26,666	-	-	26,666
Closing balance at December 31, 2019	**7,019,607**	**7,526,480**	**298,832**	**14,844,919**
Changes in current year	92,834	(5,283,880)	(61,586)	(5,252,631)
Closing balance as of June 30, 2020	**7,112,441**	**2,242,600**	**237,246**	**9,592,288**
Accumulated depreciation & Impairment				
Closing balance at December 31, 2018	-	-	-	-
Charge for the year	(2,218,171)	(3,466,623)	(141,226)	(5,826,020)
Closing balance at December 31, 2019	**(2,218,171)**	**(3,466,623)**	**(141,226)**	**(5,826,020)**
Accumulated depreciation of ceased rights of use assets	-	2,861,393	-	2,861,393
Charge for the year	(1,144,163)	(327,873)	(56,325)	(1,528,361)
Closing balance as of June 30, 2020	**(3,362,334)**	**(933,104)**	**(197,551)**	**(4,492,989)**
Net book value as of December 31, 2019	**4,801,436**	**4,059,857**	**157,606**	**9,018,898**
Net book value as of June 30, 2020	**3,750,107**	**1,309,496**	**39,696**	**5,099,299**

The Company recognized right of use assets for the following main categories of operational lease.

- Rent for usage of maritime port - berths of Midia Port.

7. FINANCIAL ASSETS

	30 June 2020	31 December 2019
Investments in subsidiaries	1,629,020,055	1,629,020,055
Total	**1,629,020,055**	**1,629,020,055**

7. FINANCIAL ASSETS (continued)

Investments in subsidiaries

Details regarding subsidiaries at 30 June 2020 and 31 December 2019 are as follows:

	Range of activity	Ownership at 30 June 2020	Ownership at 31 December 2019	Balance as at 30 June 2020	Balance as at 31 December 2019
Rompetrol Downstream S.R.L.	Fuel sales	99.99%	99.99%	1,090,406,067	1,090,406,067
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100%	100%	311,698,295	311,698,295
Rom Oil S.A.	Rental services	99.99%	99.99%	191,216,660	191,216,660
Rompetrol Logistics S.R.L.	Logistics operations	66.19%	66.19%	24,349,123	24,349,123
Rompetrol Quality Control S.R.L.	Quality Control Services for oil products	70.91%	70.91%	11,349,910	11,349,910
Total of equity investments				**1,629,020,055**	**1,629,020,055**

**Note: all subsidiaries are Romanian companies.*

8. INVENTORIES, NET

	June 30, 2020	December 31, 2019
Crude oil and other feedstock materials	260,715,772	358,492,467
Finished products	172,770,844	304,791,844
Work in progress	66,643,970	150,739,880
Spare parts	50,172,923	51,019,925
Other consumables	22,760,255	25,383,920
Merchandises	825,185	825,185
Other inventories	3,500,860	3,590,880
Inventories reserve	(67,305,216)	(72,021,952)
Total	**510,084,593**	**822,822,149**

The inventories of finished products comprise mainly petroleum products.

The movement of the provision for inventories in the first 6 months of the year 2020 and 2019 is presented below:

	June 30, 2020	December 31, 2019
Reserve at the beginning of the year	**(72,021,952)**	**(117,148,444)**
Accrued provision	(160,854,120)	(59,336,424)
Reversal provision inventories reserve	165,570,856	104,462,916
Reserve at the end of the period	**(67,305,216)**	**(72,021,952)**

The provisions for inventories represent provisions related to crude oil and other feedstock materials, finished products and spare parts calculated as the difference between the cost value and the net realizable value.

9. RECEIVABLES AND PREPAYMENTS, NET

	June 30, 2020	December 31, 2019
Trade receivables	1,166,916,492	1,654,180,637
Advances to suppliers	11,526,150	59,986,367
Sundry debtors	44,599,555	43,932,255
VAT to be recovered	1,329,563	2,885,245
Other receivables	147,399,887	78,440,655
Reserve for bad and doubtful debts	(54,886,215)	(54,732,427)
Total	**1,316,885,432**	**1,784,692,732**

The balances with related parties are presented in Note 25. The movement of provision is presented in Note 21.

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

	June 30, 2020	December 31, 2019
Balance at the beginning of the year	**(54,732,427)**	**(55,039,860)**
Charge for the year	(762,772)	(398,545)
Utilized	609,258	704,715
Unused amounts reversed	-	1,964
Exchange rate differences	(274)	(701)
Balance at the end of the period	**(54,886,215)**	**(54,732,427)**

9. RECEIVABLES AND PREPAYMENTS, NET (continued)

As at 30 June 2020 and 31 December 2019, the ageing analysis of trade receivables is as follows:

		Trade receivables					
			Days past due				
30-Jun-20	**Total**	**Current**	**1-30 zile**	**30-60 zile**	**60-90 zile**	**90-120 zile**	**>120 zile**
Expected credit loss rate	**2.95%**	**0.00%**	**0.06%**	**0.14%**	**0.07%**	**0.13%**	**9.45%**
Estimated total gross carrying amount at default	1,166,910,193	704,492,744	50,283,949	4,930,351	20,619,221	22,754,535	363,829,393
Expected credit loss	34,471,773	-	28,810	6,799	15,135	30,646	34,390,383

RON		Trade receivables					
			Days past due				
31-Dec-19	**Total**	**Current**	**1-30 zile**	**30-60 zile**	**60-90 zile**	**90-120 zile**	**>120 zile**
Expected credit loss rate	**2.09%**	**0.00%**	**0.13%**	**0.02%**	**9.91%**	**29.08%**	**9.62%**
Estimated total gross carrying amount at default	1,644,509,115	1,140,530,754	103,153,125	45,507,172	96,014	49,781	355,172,270
Expected credit loss	34,317,985	-	130,502	8,941	9,519	14,474	34,154,549

			Past due but not impaired				
	Total	**Neither past due not impaired**	**1-30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
30-Jun-20	1,132,438,420	704,492,744	50,255,139	4,923,553	20,604,086	22,723,889	329,439,010
31-Dec-19	1,610,191,131	1,140,530,754	103,022,623	45,498,231	86,495	35,307	321,017,721

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

9. RECEIVABLES AND PREPAYMENTS, NET (continued)

At 30 June 2020, the trade receivables at the initial value of RON 34.47 million (2019 RON 34.32 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	Collectively impaired
At January 1, 2019	**(34,623,679)**
Value adjustments for impairment of receivables	(398,320)
Reversed provisions	704,715
Exchange rate difference	(701)
At December 31, 2019	**(34,317,985)**
Value adjustments for impairment of receivables	(762,772)
Reversed provisions	609,258
Exchange rate difference	(274)
At June 30, 2020	**(34,471,773)**

10. CASH AND CASH EQUIVALENTS

	June 30, 2020	December 31, 2019
Cash at bank	30,167,433	20,750,587
Cash on hand	6,162	6,553
Transitory amounts	8,005,802	-
Other cash equivalents	803,839	1,616,388
Total	**38,983,236**	**22,373,528**

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

11. EQUITY

11.1 SHARE CAPITAL

As at 30 June 2020 and 31 December 2019, the share capital consists in 44,109,205,726 ordinary shares, authorized, wholly issued and paid up, with a nominal value of RON 0.1 per each share.

The shareholder structure at 30 June 2020 and 31 December 2019.

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

*At December 31, 2019 named Ministry of Energy

The total value of the Company's share capital remained unchanged in the first semester of the year 2020 and 2019.

11. EQUITY (continued)

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

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

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

Consequently, the Romanian state, through the Ministry of Economy, Energy and Business Environment owns 44.7% in the Company.

11.2 SHARE PREMIUM

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

11.3 REVALUATION RESERVES

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

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

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

At 30 June 2020, the Revaluation reserves balance (presented in net of RON 519 million) is affected by the transfer to retained earnings of the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the assets included in the building category. In compliance with OMFP 2844/2016 and with the accounting policies adopted by the Company as of 31 December 2017 the revaluation surplus included in the revaluation reserves is transferred to retained earnings as the use of the asset or upon disposal of the asset, unless a transfer hasn't been already made during utilization period of the revaluated asset. Therefore at 30 June 2020 the revaluation surplus transferred to retained earnings is in amount of RON 94,18 million. Also the Company recognized a positive effect on the deferred tax asset in amount of RON 12.8 million related to the temporary differences resulting from the revaluation surplus, due to revaluation surplus transferred to retained earnings in 2018 and 2019.

11. EQUITY (continued)

11.4 OTHER RESERVES

Hybrid Loan

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

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

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

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

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

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

Also, in 2017 the management carried out an assessment on the potential hybrid loan interest liability and recorded an amount of RON 57.2 million, based on the projected profitability of the business for the upcoming period. This liability was updated in 2018 to RON 69.3 million. On annual basis, a reassessment of the future interest is performed with direct impact in the current year result, no additional interest resulted to be recognized for the year ended 31 December 2019.

12. TRADE AND OTHER PAYABLES

	June 30, 2020	December 31, 2019
Trade payables	3,410,394,595	3,515,525,900
VAT payable	351,158,491	135,000,864
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,216)	(1,180)
Employees and social obligations	10,583,288	11,361,063
Other liabilities	1,237,314,676	1,011,621,469
Total	**5,037,010,466**	**4,701,068,748**

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

The cash pooling debt amounts to RON 1,221.15 million (2019: RON 996.19 million) and is recognised in "Other liabilities".

13. CONTRACT LIABILITIES

	June 30, 2020	December 31, 2019
Short-term advances from other customers	92,770,723	47,196,182
Total short-term advances	**92,770,723**	**47,196,182**

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

14. SHORT-TERM LOANS

Short-term loan from related parties:

	June 30, 2020	December 31, 2019
KMG International N.V. Short-term facility for working capital needs in amount of up to USD 250 million, maturity date - 31 December 2020, assignment of receivables; 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 amount as at March 31, 2019 is in amount of USD 239.35 million.	46,067,832	53,923,450
Midia Marine Terminal SRL Short-term facility for working capital needs in amount of RON 27.211 million, maturity date 31 December 2019. The facility has been fully used. The facility has been fully reimbursed in February 2020.	-	27,211,100
Rompetrol Financial Group SRL Short-term facility for working capital needs in amount up to USD 29.215 million, maturity date 31 December 2019. The facility has been fully used. The facility has been fully reimbursed in February 2020.	-	10,000,000
Interest due	6,665,666	12,756,467
	52,733,499	**103,891,017**

Short-term loan from banks

	June 30, 2020	December 31, 2019
Banca Transilvania (overtaken from Bancpost) Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 30, 2020; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m2; assignment of rights from insurance compensation.	18,152,234	39,522,931
Banca Transilvania (overtaken from Bancpost) Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 30 July 2020; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS =EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.	13,838,480	185,523
Interest due	84,045	169,064
Syndicated loan – auxiliary component representing overdraft loan granted by Unicredit Bank	5,710,893	8,201,375
TOTAL	**37,785,652**	**48,078,893**

All the financial covenants applicable were complied with as of 30 June 2020.

15. LONG-TERM LOANS

	June 30, 2020	December 31, 2019
Syndicated loan – through Unicredit Bank as payer agent Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompetrol Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 2023 (with two options to be extended over a period of another 1 year, first option was exercised in 2019 and the second option was exercised in 2020, so the period is 3 years + 1 year + 1 year, the facility being available until 2023). The following mortgages are set up to secure the loan: a) the credit balances of all current accounts present and future; b) the rights of insurance compensation; c) inventories (Propylene, Ethylenne, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% ofthe debts assigned to notify the clients.	**384,044,361**	**613,184,904**

The movement of loans in the first 6 months of the year 2020 is presented below:

	At January 01, 2020	Movement	At June 30, 2020
Long-term borrowings from banks	613,184,904	(229,140,543)	384,044,361
Short-term borrowings from banks	47,909,829	(10,208,223)	37,701,607
Short-term borrowings from shareholders and related parties	91,134,550	(45,066,718)	46,067,832
Total	**752,229,283**	**(284,415,484)**	**467,813,800**
Interest short-term borrowings from banks	169,064	(85,018)	84,045
Interest short-term borrowings from shareholders and related parties	12,756,467	(6,090,800)	6,665,666
Total	**12,925,531**	**(6,175,818)**	**6,749,711**

16. LEASE DEBTS

Analysed as follows:	Opening Balance at January 01, 2020	Repayment	E/R difference	Unwinding of discount	Remeasurements	Other changes	Closing Balance at June 30, 2020
Maturing within one year	9,083,353	(2,162,548)	52,001	87	(2,398,056)	6,772	4,581,610
Amounts due after more than 1 year but not later than 5 years	2,044,922	-	53,174	185,453	(447,335)	-	1,836,213
Amounts due after 5 years	692,047	-	9,967	-	-	-	702,013
Total	**11,820,321**	**(2,162,548)**	**115,142**	**185,540**	**(2,845,390)**	**6,772**	**7,119,836**

17. PROVISION

The movement of the provisions is presented below:

	As at January 1, 2020	Other comprehensive income	Arising during the year	Unwinding of discount	As at June 30, 2020
Retirement benefit provision	70,253,137	-	-	-	70,253,137
Environmental provision	271,807,301	-	-	-	271,807,301
Total	**342,060,438**	-	-	-	**342,060,438**

Environmental provision

The environmental provision for the Vega refinery in amount of RON 271.8 million represents obligations for cleaning of the residual pools (lagoons) and site restoration.

During 2019, Rompetrol Rafinare started the clean-up of one lagoon (total costs incurred during 2019: RON 11.9 million) and finalized the tender for additional two the lagoons. At the end of 2019, a re-assessment of the site restauration provision was performed by considering the work done during the year, the updated variable indicators (e.g. exchange rate and discount rate) and the services prices according to the new concluded agreement. The results of the reassessment lead to a reversal of provision in amount of RON 9.6 million (out of which RON 13.6 million representing the unwinding of discount).

Retirement obligations provision

Under the collective labor agreement in force, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with the entity at the date of their retirement. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the entity; and actuarial assumptions regarding mortality, staff turnover etc. For the computation an actuarial valuation is involved making various assumptions that may differ from actual developments in the future.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

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

18. NET REVENUES FROM CONTRACT WITH CUSTOMERS

	January - June 2020		TOTAL 2020	January - June 2019		TOTAL 2019
	Refining	Petrochemicals		Refining	Petrochemicals	
Gross revenues from the sale of finished oil products	5,218,991,086	272,469,613	5,491,460,699	9,040,794,876	377,599,853	9,418,394,729
Revenues from petrochemicals trading	-	55,690	55,690	-	-	-
Revenues from other merchandise sales	674,796	-	674,796	901,304	2,497,290	3,398,595
Revenues from utilities sold	4,388,319	-	4,388,319	4,658,669	-	4,658,669
Revenues from the sale other products	297,469	-	297,469	495,012	-	495,012
Revenues from other services	7,660,607	-	7,660,607	6,501,585	-	6,501,585
Gross Revenues	**5,232,012,278**	**272,525,303**	**5,504,537,581**	**9,053,351,447**	**380,097,143**	**9,433,448,590**
Less sales taxes	(1,622,042,779)	-	(1,622,042,779)	(2,185,567,225)	-	(2,185,567,225)
Total	**3,609,969,499**	**272,525,303**	**3,882,494,802**	**6,867,784,222**	**380,097,143**	**7,247,881,365**

19. COST OF SALES

	January - June 2020	January - June 2019
Crude oil and other raw materials	3,646,088,635	6,596,401,074
Consumables and other materials	25,435,711	32,655,544
Utilities	206,268,043	242,835,488
Staff costs	50,099,112	51,306,190
Transportation	35,058	41,130
Maintenance	42,383,005	47,437,509
Insurance	3,085,794	3,274,665
Environmental expenses	22,316,662	17,577,512
Other	24,768,673	24,615,348
Cash production cost	**4,020,480,693**	**7,016,144,460**
Depreciation and amortization	121,878,255	146,343,530
Production costs	**4,142,358,948**	**7,162,487,989**
Less: Change in inventories	206,974,127	(50,831,965)
Less: Own production of property, plant & equipment	(20,523,847)	(1,163,915)
Cost of petrochemicals trading	54,183	2,705,034
Cost of other merchandise sales	619,150	1,094,664
Cost of utilities sold	4,181,284	3,757,268
Realised (gains)/losses on derivatives	(206,383,944)	(7,546,415)
Total	**4,127,279,901**	**7,110,502,660**

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

	January - June 2020	January - June 2019
Staff costs	24,541,233	17,782,822
Utilities	11,916,546	4,941,224
Transportation	23,625,341	23,327,862
Professional and consulting fees	31,044,535	45,414,158
Consumables	1,078,084	567,344
Marketing	82,762	94,306
Taxes	2,235,979	2,070,193
Communications	24,231	35,492
Insurance	1,747,792	886,251
IT related expenditures	4,139,118	4,304,620
Environmental expenses	10,328,054	8,446,373
Maintenance	10,465,224	6,252,610
Fees and penalties	6,282,371	12,625,397
Other expenses	20,828,750	12,070,942
Costs before depreciation	**148,340,020**	**138,819,593**
Depreciation and amortisation	48,785,509	20,968,711
Total	**197,125,528**	**159,788,304**

21. OTHER OPERATING (INCOME) / EXPENSES, NET

	January - June 2020	January - June 2019
Loss from receivables (including provisions and write-off), net	153,514	(30,872)
Loss from provision for inventories and write-off, net	(4,716,736)	(34,151,180)
Other expenses / (income), net	(318,366)	(558,956)
Total	**(4,881,588)**	**(34,741,008)**

22. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	January - June 2020	January - June 2019
Finance cost		
Interest expense	20,264,875	17,678,516
Interest expense shareholders and related parties	23,561,653	32,345,701
Other financial expense	54,351,637	55,958,267
	98,178,166	**105,982,484**
Finance income		
Interest income	(2,361,524)	(10,433,104)
Other financial income	(6,748,543)	(879,132)
	(9,110,068)	**(11,312,236)**
Finance result	**89,068,098**	**94,670,248**
Unrealized net foreign exchange losses/(gains)	10,523,785	(78,114,626)
Realized net foreign exchange losses/(gains)	55,493,195	133,987,305
Foreign exchange (gain)/loss, net	**66,016,980**	**55,872,680**
Total	**155,085,078**	**150,542,928**

23. INCOME TAX

The income tax rate was 16% in the first semester of the year 2020 and 2019.

DEFERRED TAX

	Balance at January 1, 2020	Charged to Profit & loss	Charged to Equity	Balance at June 30, 2020
Temporary differences				
Asset/Liability				
Property, plant and equipment	1,171,545,256	-	-	1,171,545,256
Provisions	(271,807,301)	-	-	(271,807,301)
Fiscal loss	(1,588,060,366)	-	-	(1,588,060,366)
Total temporary differences (Asset)/Liability	**(688,322,411)**	**-**	**-**	**(688,322,411)**
Property, plant and equipment	187,447,242	-	-	187,447,242
Provisions	(43,489,168)	-	-	(43,489,168)
Fiscal loss	(254,089,659)	-	-	(254,089,659)
Deffered tax (assets)/liability calculated	(110,131,585)	-	-	(110,131,585)
Deffered tax (assets)/liability recognised	**(110,131,585)**	**-**	**-**	**(110,131,585)**

Contingencies related to taxation

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

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

24. OPERATING SEGMENT INFORMATION

a) Business segments

For management purposes, the company is organized on two segments-refining and petrochemical.

June 30, 2020 Profit and loss

	Refining	Petrochemicals	Unalocated amounts between the segments	Total
Net turnover	3,609,969,499	272,525,303	-	3,882,494,802
Cost of sales	(3,810,180,923)	(317,098,978)	-	4,127,279,901)
Gross loss	**(200,211,425)**	**(44,573,675)**	**-**	**(244,785,099)**
Selling, general and administrative expenses	(167,271,637)	(29,853,892)	-	(197,125,528)
Other operating revenues / expenses, net	4,881,588	-	-	4,881,588
Operating loss	**(362,601,473)**	**(74,427,567)**	**-**	**(437,029,040)**
Financial expenses	-	-	(98,178,166)	(98,178,166)
Financial revenues	-	-	9,110,068	9,110,068
Net foreign exchange gains / (losses)	-	-	(66,016,980)	(66,016,980)
Loss before income tax	**(362,601,473)**	**(74,427,567)**	**(155,085,078)**	**(592,114,118)**
Deferred tax	-	-	-	-
Net Loss	**(362,601,473)**	**(74,427,567)**	**(155,085,078)**	**(592,114,118)**
out of which Depreciation and amortization	**(142,626,214)**	**(28,037,549)**	**-**	**(170,663,764)**

24. OPERATING SEGMENT INFORMATION (continued)

June 30, 2019 Profit and loss

	Refining	Petrochemicals	Unalocated amounts between the segments	Total
Net turnover	6,867,784,222	380,097,143	-	7,247,881,365
Cost of sales	(6,743,875,477)	(366,627,183)	-	(7,110,502,660)
Gross profit	**123,908,745**	**13,469,960**	**-**	**137,378,705**
Selling, general and administrative expenses	(135,346,834)	(24,441,470)	-	(159,788,304)
Other operating expenses	(27,012,279)	-	-	(27,012,279)
Other operating revenues	61,753,287	-	-	61,753,287
Operating profit/ (loss)	**23,302,920**	**(10,971,510)**	**-**	**12,331,410**
Financial expenses	-	-	(105,982,484)	(105,982,484)
Financial revenues	-	-	11,312,236	11,312,236
Net foreign exchange gains / (losses)	-	-	(55,872,680)	(55,872,680)
Profit/(loss) before income tax	**23,302,920**	**(10,971,510)**	**(150,542,928)**	**(138,211,518)**
Deferred tax	-	-	-	-
Net Profit / (Loss)	**23,302,920**	**(10,971,510)**	**(150,542,928)**	**(138,211,518)**
out of which Depreciation and amortization	**(137,380,338)**	**(29,931,903)**	**-**	**(167,312,240)**

b) Geographical segments

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

	S1 2020	S1 2019
Romania	2,549,019,611	3,954,948,241
Europe	1,269,716,851	3,203,778,539
Asia	46,348,781	79,061,756
America	17,409,559	10,092,830
Total	**3,882,494,802**	**7,247,881,365**

25. RELATED PARTIES

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

Name of the affiliated entity	Nature of the relation
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V
Rominserv S.R.L	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetrol Well Services S.A.	Company held by KMG International N.V
Palplast S.A.	Company held by KMG International N.V
Rompetrol Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetrol Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal S.R.L.	Company held by KMG International N.V
Rompetrol Financial Group S.R.L.	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping S.R.L.	Company held by KMG International N.V
Rompetrol Albania Wholesale Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Ukraine LTD	Company held by KMG International N.V (KMG International N.V. owns 50%)
Rominserv Valves Iaifo SRL	Company held by KMG International N.V
KAZMUNAYGAS – Engineering LLP (former Rominserv Kazakhstan LLC)	Company held by KMG International N.V
Uzina Termoelectrica Midia S.A.	Company held by KMG International N.V (KMG International group holds: 43.42%)
Global Security System S.A.	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Downstream S.R.L.	Company affiliated to the Company
Rompetrol Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Rompetrol Logistics S.R.L.	Company affiliated to the Company
Rompetrol Quality Control S.R.L.	Company affiliated to the Company
Rompetrol Gas S.R.L.	Company held by KMG International N.V
Rompetrol France SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Agat Ltd	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 50%)
Rompetrol Albania Downstream Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Albania Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Distribution Albania Sh.A	Company held by KMG International N.V (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V
KMG Rompetrol Services Center SRL (former Rompetrol Exploration & Production SRL)	Company held by KMG International N.V
Rompetrol Drilling	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Fondul de Investitii in Energie Kazah-Roman S.A.	Company held by KMG International N.V
KMG ROMPETROL DEVELOPMENT S.R.L.	Company held by KMG International N.V

25. RELATED PARTIES (continued)

Oman JV	Societate a Grupului KMG International

Note: There are also 9 branches and representatives

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. There have been no guarantees provided or received for any related party receivables or payables. For the exercise ended at 30 June 2020, the Company did not record any depreciation of the receivables referring to the amounts due to the related parties (2019: zero). This assessment is performed every year, by analyzing the financial position of the related party and the market in which it is carrying on its activity.

A. At 30 June 2020 and 31 December 2019, Rompetrol Rafinare had the following balances with the related parties:

	Receivables and other assets	
	June 30, 2020	**December 31, 2019**
KazMunayGas Trading AG	543,606,579	754,334,283
Rompetrol Downstream S.R.L	395,434,416	547,599,327
Rompetrol Petrochemicals S.R.L.	481	481
KMG International N.V.	5,234,340	8,686,860
Rompetrol Gas SRL	4,537,549	42,544,087
Rompetrol Bulgaria JSC	2,675,841	16,016,832
Rominserv S.R.L.	14,709,339	14,108,866
Rompetrol Quality Control S.R.L.	138,181	146,912
Rompetrol Logistics S.R.L	10,085	3,020
Midia Marine Terminal S.R.L.	880,560	951,546
Uzina Termoelectrica Midia S.A.	14,120,642	13,051,590
KMG Rompetrol SRL	66,404,345	7,277,980
Global Security Systems S.A.	607,024	606,694
Kazmunaygas – Engineering LLP (former Rominserv Kazakhstan(RKZ))	727,036	716,526
Palplast S.A.	3,399,745	3,499,745
Byron Shipping Ltd.	1,905	2,441
Rompetrol Ukraina	16,371	16,134
Oilfield Exploration Business Solutions S.A.	3,015,261	3,062,259
Rompetrol Financial Group SRL	10,872	10,728
KMG Rompetrol Services Center SRL	55,008	55,103
Total	**1,055,585,580**	**1,412,691,414**

25. RELATED PARTIES (continued)

	Payables, loans and other liabilities	
	June 30, 2020	**December 31, 2019**
KazMunayGas Trading AG	2,787,078,472	3,138,358,824
Rompetrol Downstream S.R.L	31,345,129	39,446,513
Rompetrol Petrochemicals S.R.L.	8,440,871	8,440,871
KMG International N.V.- loans(note14)	46,067,832	53,923,450
KMG International N.V.-interest	6,665,666	5,670,811
KMG International N.V.-interest hybrid loan	69,291,612	69,291,612
KMG International N.V.-trade debts	24,199,961	30,838,648
Rompetrol Gas SRL	3,576,193	3,549,340
Rompetrol Moldova ICS	53,798,221	7,849,029
Rominserv S.R.L.	295,235,787	87,755,381
Rompetrol Quality Control S.R.L.	14,738,198	13,287,728
Rompetrol Logistics S.R.L	762,045	664,272
Midia Marine Terminal S.R.L.- loans(note14)	-	27,211,100
Midia Marine Terminal S.R.L.-interest	-	1,035,171
Midia Marine Terminal S.R.L.-trade debts	23,325,740	20,388,322
Uzina Termoelectrica Midia S.A.	27,297,347	31,350,852
KMG Rompetrol SRL- debt cash pooling	1,217,607,140	992,053,807
KMG Rompetrol SRL-interest cash pooling	3,546,477	4,136,452
KMG Rompetrol SRL-trade debts	18,770,166	38,528,222
Global Security Systems S.A.	622,358	611,947
KMG Rompetrol Development	1,677,754	2,582,822
Rompetrol Exploration & Production S.R.L.	66	66
Rompetrol Financial Group SRL - loans(note14)	-	10,000,000
Rompetrol Financial Group SRL-interest	-	6,050,485
KMG Rompetrol Services Center SRL	1,680,154	1,488,149
Rompetrol Bulgaria JSC	489,065	481,994
TRG Petrol Ticaret Anonim Sirketi	10,346	10,346
Total	**4,636,226,601**	**4,595,006,214**

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2021.

25. RELATED PARTIES (continued)

In the first semester of the year 2020, respectively in the first semester of the year 2019, Rompetrol Rafinare had the following transactions with the related parties:

0	0	Sales		Purchases	
Name of related party	**Nature of transaction , sales / purchases**	**S1 2020**	**S1 2019**	**S1 2020**	**S1 2019**
KazMunayGas Trading AG	Raw materials / Petroleum products	761,173,525	2,222,351,519	3,095,371,620	6,395,993,690
Rompetrol Downstream S.R.L	Petroleum products, rent, utilities and other	1,637,698,567	2,513,702,924	1,068,032	1,115,152
Rompetrol Petrochemicals S.R.L.	Rent, utilities and other	-	8,555	-	-
KMG International N.V.	Loan interest, management services	-	-	6,200,554	10,202,419
Rompetrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	126,098,446	215,478,195	1,918,008	579,981
Rompetrol Moldova ICS	Sales intermediary services	216,032,508	464,588,543	-	-
Rompetrol Bulgaria JSC	Sales intermediary services	36,597,103	51,846,342	-	-
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	1,432,080	1,376,195	389,973,523	139,899,070
Rompetrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	743,497	1,164,551	15,308,611	14,580,252
Rompetrol Logistics S.R.L	Transport, rent/Rent, utilities	5,972	8,084	82,162	82,162
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, reinvoicing, loan interest ,others	516,871	883,236	32,703,635	32,907,789
Rompetrol Well Services S.A.	Loan interest & others	-	-	232	799,095
Uzina Termoelectrica Midia S.A.	Acquistion of utilities	37,313,149	44,484,976	61,279,830	56,666,002
KMG Rompetrol S.R.L.	Loan interest, management services	2,363,044	5,560,944	49,596,928	65,740,382
Global Security Systems S.A.	Security and protection services	921	756	4,064,614	5,559,737
Byron Shipping S.R.L.	Demurrage /Rent, reinvoices of other services	12,134	20,086	76,401	2,440
Rompetrol Financial Group SRL	Loan interest	-	-	63,517	2,994,033
KMG Rompetrol Services Center SRL	Shared services	284,027	271,908	8,678,913	8,497,348
TRG Petrol Ticaret Anonim Sirketi	Petroleum products	-	32,285	-	-
		2,820,271,844	**5,521,779,099**	**3,666,386,581**	**6,735,619,550**

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, based on a Government Ordinance, the Ministry of Economy Trade and Business Environment ("MECMA") became shareholder until May 2013 when, following the reorganization of MECMA, the Ministry of Economy ("ME") became the new shareholder. The ministry was later renamed as Ministry of Energy, Small- and Medium-sized Enterprises and Business Environment (" MEIMMMA ") and later on renamed as Ministry of Energy ("ME"). Its current name is Ministry of Economy, Energy and Business Environment ("MEEMA") according to the OUG 68/11.06.2019.

As a result MFPR, MECMA, ME, MEIMMMA, MEEMA and Other Authorities are considered to be a related party of the The Group. There are no transactions, balance sheets at the year-end in relation with MFPR, MECMA, ME, MEIMMMA, MEEMA and other Romanian authorities during the time of their affiliation, other than those arising from Romanian fiscal and legislation requirements.

26. EARNINGS PER SHARE

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

	January - June 2020	January - June 2019
Net profit (+), loss (-)	(592,114,118)	(138,211,518)
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (bani/share)	(1.34)	(0.31)

27. CONTINGENT LIABILITIES

a) Related to the Company's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Company based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 28). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is considered remote. On December 5, 2019 DIICOT issued the Ordinance by which all criminal charges have been dismissed either on merits or because of passing the status of limitation period. In such situation, the reason for which the settlement of the administrative appeal has been suspended, has ceased.

b) In 2001, the Company processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Company were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Company cancelled such invoices. The Company is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Company liable for paying such excises; the Company appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.3 million). The management is confident that the likelihood of reversal of the earlier court decision is very low. On December 5, 2019 DIICOT issued the Ordinance by which all criminal charges have been dismissed either on merits or because of passing the status of limitation period. In such situation, the reason for which the settlement of the administrative appeal has been suspended, has ceased.

c) Rompetrol Rafinare SA - Distressed Assets - Hybrid Conversion

Emergency Ordinance ("EGO") 118/2003 approved by Law 89/2005 and the Issuing Convention of December 5, 2003 ("Issuing Convention"), regulated the conversion of RON 2,177.7 million of state budget liabilities, including penalties, into 22,812,098 EUR- denominated long-term reverse-convertible bonds with a face value EUR 25 each. (i.e. a total of EUR 570.3 million at the RON/EUR exchange rate as of September 30, 2003 or 3.8185 RON/EUR or USD 719.4 million at the same date), hereinafter referred to as "Hybrid instruments" or "Bonds". The Bonds carried interest and were redeemable on or before maturity, whereas EGO specifically provided that bonds not redeemed by September 30,2010 should be convertible, at a fixed conversion rate, into ordinary shares of Rompetrol Rafinare S.A., at the option of the Company (KMGI).

27. CONTINGENT LIABILITIES (continued)

In accordance with the requirements of EGO 118/2003 and the Issuing Convention, Rompetrol Rafinare S.A. undertook the following transactions in relations to bonds:

1) the Extraordinary General Meeting of the Shareholders as of June 30, 2010 approved, the increase of the Company's share capital by USD 100.2 million;
2) On August 9, 2010, RRC redeemed 2,160,000 Bonds in aggregate amount of EUR 54 million;
3) On September 30, 2010, the Extraordinary General Meeting of the Shareholders of Rompetrol Rafinare S.A. approved conversion of the unredeemed Bonds into shares, the corresponding share capital increase and the exact numbers of shares to be received by the Romanian Ministry of Public Finance for the Bonds it held. The number of shares was calculated based on the conversion rate of the bonds into shares indicated by the EGO 118/2003 and the Issuing Convention.

The Ministry of Public Finance publicly took an adverse position against such course of action and challenged it in various course procedures.

On September 10, 2010 the National Agency of Fiscal Administration ("ANAF") issued a decision for establishment of a precautionary seizure on all the participations held by Rompetrol Rafinare S.A. and its affiliates as well as on all movable and immovable assets of Rompetrol Rafinare S.A. except inventories. This measure is still in force and it is challenged by the Group. By now the seizure has not produced direct effects on the Company's recurring operations.

On February 15,2013 the Group and the Office of the State Ownership and Privatization in Industry ("OPSPI"), representing the Romanian State, concluded a memorandum of understanding aiming at the amiable settlement of the Litigations. As a result of the Memorandum, the parties agreed the suspension of the court proceedings, in order to allow the time to implement the Memorandum, which was acknowledged by the court on February 18, 2013.

On 22 January 2014, the Memorandum of Understanding was approved by Government Decision no.35/2014 pursuant to which the Ministry of Public Finances has been authorized and mandated to pursue all procedural actions required for the withdrawal of the claims and the termination of all Litigations, including the Main Claim, without hearing of the merits thereof. The Memorandum of Understanding includes the following aspects:

- OPSPI will sell and the Group will acquire shares owned by OPSPI and representing 26.6959% of RRC's share capital for a cash consideration of 200 million USD;
- The KMGI Group will invest in energy project related to its core activities an amount estimated at 1 USD billion over 7 years;
- The Ministry of Finance will all cases against the GMS decisions related to the conversion and will cancel the forced execution title.

Following the hearing on March 24, 2014 it is confirmed that the court case is closed following the Ministry of Finance renouncing all the court actions that were in progress that are mentioned above.

Following this decision, Rompetrol submitted to the Romanian authorities a requirement for the annulment of the seizure. As long as the court decision confirmed that the state is a shareholder of Petromidia and therefore there is no amount payable by the Refinery to the state, there is no object for the seizure. The Group reverted again in February 2020 to ANAF for lifting the seizure and pointed out there is no legal rationale to be maintained. Besides all of these, the seizure is still in place.

The Shareholders agreement for the set-up the Kazakh Romanian Investment Fund ("KRF") was signed on 26 October 2018, and soon after KRF was registered as a joint stock company. All its managing bodies were organized and are functional.

Following the sign off of the association agreement for the establishment of The Kazakh - Romanian Energy Investment Fund (between KazMunayGas International (KMGI) and Societatea de Administrare a Participatiilor in Energie (SAPE), in accordance with the provisions of the Memorandum of Understanding, in October 2018, the investment period of 7 years is established between 2019 - 2025.

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 Company;
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 distraint (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 17 June 2016.

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

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

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

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

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 4, 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 request for partial release of seizure was filled in on April 8, 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.

As 23/10/2019, all the shares seized back in May 2016 as well as the KMGI assets, and assets of Refinery located on the Vega, Ploiesti Platform and OEBS assets were released from seizure (on April 22, 2019). Therefore, the only assets still remaining under freezing orders are the ones of RRC located in Navodari on the Petromidia refinery Platform. On June 12 and July 29, 2019 the Group submitted another statement of defence by challenging the allegations mentioned within the case.

On December 5, 2019 DIICOT issued another Ordinance by which all criminal charges have been dismissed either on merits or because of passing the status of limitation period.

28. LEGAL MATTERS (continued)

The seizure is lifted entirely but to protect the civil parties, namely Faber and State Authority which manages the State assets, a temporary seizure is kept up to $106m over 4 RRC' installations for a limited period of 30 days. If the said civil parties will not fill in a civil claim to the civil courts against Group companies, this temporary seizure is also null and void. If they still do, then it is up to the civil court to assess the grounds for keeping such a seizure in place until the civil claim will be settled.

The ordinance from December 5, 2019 is subject of challenge within 20 days. Both Faber and AAAS and the Group challenged it. The Group challenge filled in on December 27, 2019 concerns the relevant criminal charges to be dismissed on merits and not because of passing the status of limitation. On February 7, 2020 DIICOT rejected the Group challenge against December 5, 2019 Ordinance. The group submitted to Supreme Court challenge against the DIICOT rejection and the first hearing is scheduled for April 8, 2020. The last term was schedule for May 29, 2020 and the Court postpone it for June 26, 2020 to allow the parties to prepare their defences. On July 10, 2020, the Supreme Court issued the final decision according to which all the complaints formulated against the dismissal ordinance issued on December 5, 2019, issued in file no. 225 / D / P / 2006 by the PICCJ-DIICOT were rejected as inadmissible.

We noticed that Faber submitted a civil claim to the Bucharest court against both the Group companies and defendants. On May 25, the Bucharest Court rejected the request of Faber for settlement of the stamp fee that Faber should pay for its claim (for the time being is $530,000). On July 8, Bucharest Court annulled Faber's claim as unstamped.
On the other hand, Faber resumed one of the older files by which Faber challenged the increasing of the RRC share capital back in 2003-2005. The hearing is scheduled for April 14 but the case has been suspended due to the emergency enforced since March 16. The next hearing was settled for August 18, 2020.

Litigation on Tax Assessments received by Rompetrol Rafinare S.A. completed 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, a Decision not to modify the tax base for certain taxes, including the profit tax and also 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. Also, the analysis of the transfer pricing file for the years 2007 - 2008, requested during the inspection and presented by Rompetrol Rafinare on 21.04.2011 was postponed for a possible re-verification.

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. In addition, the court ordered the completion of the analysis of the transfer pricing file during the control period.
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 the amount paid was reimbursed to the Company.

28. LEGAL MATTERS (continued)

The completion of the analysis of the transfer pricing file ordered by the court took place in July 2020, based on the action of a new fiscal inspection on establishing the taxable base for calculating the profit tax for 2007-2010, action initiated in April 2018. Although late under the aspect of respecting the taxpayer's rights protected by the court decision, the finalization of the analysis of the transfer pricing file by the National Agency for Fiscal Administration includes the position of the fiscal authority regarding the degree of detail necessary to document for tax purposes transactions with related parties.

Following the completion by the National Agency for Fiscal Administration of the analysis of the transfer price files for the controlled period 2007-2010, no additional fiscal payment obligations were established for the Company.

Even if for the controlled period, respectively 2007-2010, the new fiscal inspection action established additionally, by estimation, a significant taxable base for the calculation of the profit tax, this does not change the fiscal loss carried forward to 01.01.2020.

Following the analysis of the Fiscal Inspection Report issued in July 2020, Rompetrol Rafinare requested the fiscal inspection team to correct a material error identified in it, which, according to the Company's expectations, following the correction would lead to a considerably improved fiscal inspection result for the Company. At this moment, Rompetrol Rafinare is waiting for an answer from the National Agency for Fiscal Administration in connection with the request to correct the material error.

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 EUR 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.
Taking in consideration that according with the decision the court awarded a lower amount than the one requested, a final appeal was formulated within the legal time limit.The Supreme Court set the first hearing for November 11, 2021, but the Company submitted an application at the beginning of October to ask for an earlier hearing considering that already passed 7 years since the Supreme Court decision issued in the favor of the company. On June 17, 2020, the Supreme Court issued the final decision according to which the appeals declared by Rompetrol Rafinare S.A. and the Ministry of Environment, Waters and Forests and the Government of Romania - General Secretariat of the Government against the decision issued by the Court of Appeal Constanţa in 2019 were rejected. The favorable decision of the first court will be enforced for obtaining the amount granted.

28. LEGAL MATTERS (continued)

Litigation between Rompetrol Rafinare and Navodari City Hall

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

a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16th, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the High Court of Cassation and Justice is established for January 30, 2020. The next hearing term was set for July 16, 2020, when the appeal filed by Rompetrol Rafinare was judged, the ruling being postponed until July 21, 2020. At that time, the Supreme Court admited the appeal and completely changed the solution of the first court, admiting the action filed by Rompetrol Rafinare SA.
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. On November 2nd 2018, the case has been suspended. On January 10, 2020, by Decision 73/2020, the High Court of Cassation and Justice found the appeal filed by the Navodari City Hall outdated. The solution is final.

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:

28. LEGAL MATTERS (continued)

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 13, 2019, in order to communicate to the parties the statement of defense issued by National Company "Administratia Porturilor Maritime" SA. The pronounce was postponed for 21 October, 2019, when the court dismissed the complaints filed by the plaintiffs. The solution was appealed by Rompetrol Rafinare SA, the first hearing will be set by the court.

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. During the filter proceedings, National Company "Administratia Porturilor Maritime" SA has raised the exception of inadmissibility of our recourse, motivated by the fact that, according to art. 483 paragraph 2 of the Civil Procedure Code, the decisions regarding the civil navigation and port activity processes are exempted from the right of recourse. Rompetrol Rafinare SA has raised the exception of unconstitutionality regarding the art. 483 paragraph 2 of the Civil Procedure Code. From this reason, The High Court of Cassation and Justice has suspended the procedure until the Constitutional Court solves the exception submitted by Rompetrol Rafinare.

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

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.

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.

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.

As a result of the preliminary chamber proceedings, the requests and the exceptions invoked by the defendants were admitted in part, the relative nullity of the indictment of the Prosecutor's Office attached to the Constanta Court of Appeal was found, as well as the irregularity which leads to the impossibility of establishing the object and limits of the indictment judgment.

On October 15, 2019 the court decided again to send back the indictment to the prosecutorial office due to the irregularities mentioned therein. The decision of the court was appealed by Prosecutor's Office and by both companies. The appeals were rejected, the court's solution was maintained, and the file was sent back to the Prosecutor's Office.

The company was summoned to the prosecutor's office on June 2th , 2020 in order to be informed that the quality of suspect of the company in the file remained unchanged as presented above.

On June 24, 2020 the company received the prosecutor indictment from the Constanta Court. Taking in consideration that the court has been notified with a new indictment, for the third time the preliminary chamber procedure is to be carried out.
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. 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.

28. LEGAL MATTERS (continued)

Considering the allegations, each company is facing, a maximum exposure of approximately RON 3.6 million. As at current date the maximum exposure is in amount of $1.7m (RON 7.2 m).

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 16th, 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.

Litigation on Tax Assessments received by Rompetrol Rafinare S.A. in 2017

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

The Company submitted to Constanta Court of Appeal a claim by which it challenged the amounts rejected by ANAF - DGSC in the Decision regarding the Company's administrative appeal.
The amounts for which ANAF - DGSC annulled the Decision and ordered a re-verification are not subject of the court claim.
The claim submitted by Rompetrol Rafinare S.A. was registered on 25 July 2019 at the Constanta Court of Appeal, forming Case file no. 393/36/2019. The Court set the first hearing for November 13, 2019. At the hearing on December 11, 2019 the Court approved RRC's request to carry out a financial – accounting expertise in the Case file and set the next term for January 15, 2020 when the Court will nominate three experts to perform the expertise and will set the term for the Expertise Report to be filled. On 15 January 2020, the Court nominated the experts and set the next term for 12 February 2020 for the expertise to be initiated. The Court set the next term for March 11, 2020 for the Expertise Report to be issued.

28. LEGAL MATTERS (continued)

The file was suspended, based on art. 42 point 6 of the Decree of the President of Romania no. 195 / 16.03.2020 regarding the establishment of the state of emergency on the territory of Romania and of the Decision of the Board of Management no. 4/18.03.2020 of the Court of Appeal Constanta, without performing any procedural act. The Court of Appeal set the next term in the case file on September 16, 2020.

29. COMMITMENTS

Environmental commitments

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

The Company has recognized a provision for costs of greening the lagoons at its Vega working point, (see Note 17).

As of 30 June 2020 and 31 December 2019 Rompetrol Rafinare SA has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega refinery obligations, which have been provisioned.

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS

A. CAPITAL RISK

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of bank debt and shareholder loans (see Notes 14 and 15), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the "Statement of Changes in the Shareholders' Equity".

B. GEARING RATIO

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

	June 30, 2020	December 31, 2019
Debt (excluding shareholder and related parties loans)	421,830,013	661,263,797
Cash and cash equivalents	(38,983,236)	(22,373,528)
Net Borrowings	**382,846,777**	**638,890,269**
Equity (including shareholder and related parties loans)	1,454,439,208	2,071,875,056
Gearing ratio	**26.3%**	**30.8%**

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

C. FINANCIAL INSTRUMENTS

	June 30, 2020	December 31, 2019
Financial assets		
Trade receivables and other receivables	1,156,629,832	1,643,380,465
Derivatives	25,983,033	2,585,313
Cash and bank accounts	38,983,236	22,373,528
TOTAL FINANCIAL ASSETS	**1,221,596,101**	**1,668,339,306**

Financial liabilities	**June 30, 2020**	**December 31, 2019**
Short term borrowings from shareholders and related parties	52,733,499	103,891,017
Derivatives	60,412	15,786,131
Commercial liabilities and other liabilities	4,653,619,492	4,533,098,654
Short term loans	37,785,652	48,078,893
Long term borrowings from banks	384,044,361	678,275,831
Hybrid instrument - long-term portion	69,291,612	69,291,612
Lease debts	7,119,836	11,820,321
TOTAL FINANCIAL LIABILITIES	**5,204,654,863**	**5,460,242,458**

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

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

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

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

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

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

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

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

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Company enters into derivative financial instruments with various counterparties. As at 30 June 2020, the marked to market value of derivative position is for financial instruments recognised at fair value.

Fair value hierarchy

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

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

	June 30, 2020	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Trade receivables and other receivables	1,156,629,832	1,156,629,832	-	-
Derivatives	25,983,033	-	25,983,033	-
Cash and bank accounts	38,983,236	38,983,236	-	-
TOTAL FINANCIAL ASSETS	**1,221,596,101**	**1,195,613,068**	**25,983,033**	**-**
Financial liabilities				
Short term borrowings from shareholders and related parties	52,733,499	52,733,499	-	-
Derivatives	60,412	-	60,412	-
Commercial liabilities and other liabilities	4,653,619,492	4,653,619,492	-	-
Short term loans	37,785,652	37,785,652	-	-
Long term borrowings from banks	384,044,361	384,044,361	-	-
Hybrid instrument - long-term portion	69,291,612	-	69,291,612	-
Lease debts	7,119,836	7,119,836	-	-
TOTAL FINANCIAL LIABILITIES	**5,204,654,863**	**5,135,302,839**	**69,352,024**	**-**

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

	December 31, 2019	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Trade receivables and other receivables	1,643,380,465	1,643,380,465	-	-
Derivatives	2,585,313	-	2,585,313	-
Cash and bank accounts	22,373,528	22,373,528	-	-
TOTAL FINANCIAL ASSETS	**1,668,339,306**	**1,665,753,993**	**2,585,313**	**-**
Financial liabilities				
Short term borrowings from shareholders and related parties	103,891,017	103,891,017	-	-
Derivatives	15,786,131	-	15,786,131	-
Commercial liabilities and other liabilities	4,533,098,654	4,533,098,654	-	-
Short term loans	48,078,893	48,078,893	-	-
Long term borrowings from banks	678,275,831	678,275,831	-	-
Hybrid instrument - long-term portion	69,291,612	-	69,291,612	-
Lease debts	11,820,321	11,820,321	-	-
TOTAL FINANCIAL LIABILITIES	**5,460,242,458**	**5,375,164,715**	**85,077,743**	**-**

At 30 June 2020 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.

D. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

E. MARKET RISK

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

F. FOREIGN CURRENCY RISK MANAGEMENT

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

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

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

G. FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

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

		USD		EUR	
		June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
RON					
	5%	(156,892,087)	(155,128,555)	3,477,432	2,390,308
	-5%	156,892,087	155,128,555	(3,477,432)	(2,390,308)

H. INTEREST RATE RISK MANAGEMENT

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

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

If the interest rates had varied by + / - 50 points and all the other variables had remained constant, the net result of the Company as at 30 June 2020 would increase / decrease by RON 21 million (2019: increase / decrease by RON 15.3 million).

I. OIL PRODUCTS and RAW MATERIAL PRICE RISK

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

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

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

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

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

J. CREDIT RISK

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

Trade receivables

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

Financial instruments and bank deposits

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

31. SUBSEQUENT EVENTS

Rompetrol Rafinare S.A credit facility in amount of EURO 30 million granted by Banca Transilvania was extended until July 30, 2021.

Rompetrol Rafinare S.A credit facility in amount of EURO 27,96 million granted by Banca Transilvania was extended until July 30, 2021.

Rompetrol Rafinare S.A new credit facility in amount of EURO 9 million granted by Banca Transilvania with maturity 26.04.2021.

SADUOKHAS MERALIYEV
Chairman of the Board of Directors

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MIRCEA-STEFAN STANESCU
Financial Manager

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FELIX CRUDU-TESLOVEANU
General Manager

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