



rompetrol

KazMunayGas
International
Group Member

Report of the Board of Directors of Rompetrol Rafinare SA (the “Company”)

**REGARDING THE PATRIMONIAL SITUATION OF ROMPETROL RAFINARE S.A.
AS OF 31.12.2020
ACCORDING TO ART. 153[^]24 OF COMPANY LAW NO. 31/1990**

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Sole registration code with the Trade Registry	
Office attached to the Constanța Tribunal:	1860712
Trade Registry number:	J13/534/1991

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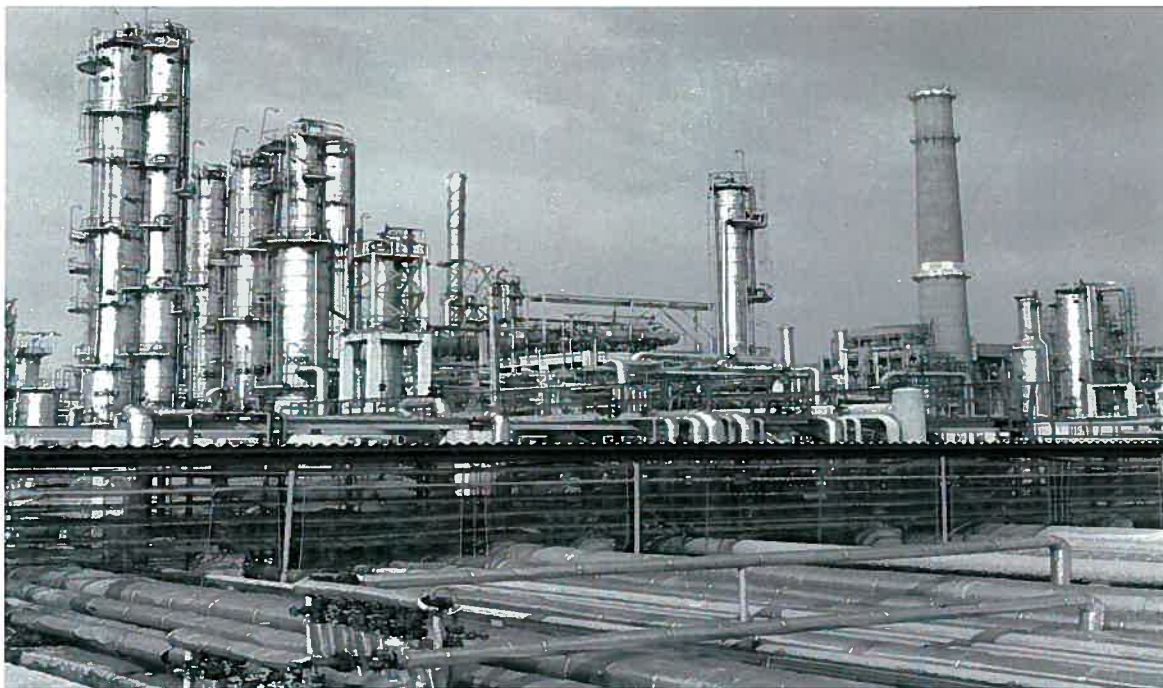
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I.HISTORY

Rompetrol Rafinare S.A., a company member of the KMG International Group, operates the Petromidia refinery (including the petrochemical sector) localized in Năvodari, Constanța County, and the Vega refinery in Ploiești, Prahova County.

Rompetrol Rafinare S.A. is the most important asset of KMG International NV in Romania, with a significant economic impact on and contribution to energy security. The Company has an experience of 40 years in the field of making products obtained from crude oil processing and a history that began in 1979, upon the commissioning of the first unit, the AD unit (atmospheric distillation unit).



Please find hereinbelow a brief presentation of the most important times in the Company's history:

1975 - 1977	• Midia Năvodari Petrochemical Plant (the first name of Rompetrol Rafinare S.A.) was deigned on the basis of Romanian refining technologies and of certain foreign licenses.
1979	• The first unit - the Atmospheric Distillation Unit - is commissioned



1991	<ul style="list-style-type: none">• Midia Petrochemical Plant turns into a joint stock company, the assets of the former unit being entirely taken over. The newly-formed company, under the name of PETROMIDIA S.A., was established under Government Decision No. 1176/1990, issued under Law No. 15/1990 on the reorganization of State economic operators as <i>regies autonomes</i> and business companies. Annex No. 1 to the regulatory act mentions the headquarters of the joint stock company, as being located in Constanta, Str. DN 228 km 23, Constanta County.• The Company is registered with the Constanta Trade Registry under No. J13/534/1991 and has sole registration code 1860712.
2000	<ul style="list-style-type: none">• Government Decision No. 540/2000 on the approval of the classification into functional categories of public roads and private utility roads open to public traffic, road DN 228 was re-categorized as a county road under the name of County Road 226. The regulatory act resulted in the amendment of the Company's Articles of Incorporation and Registration Certificate.
2001	<ul style="list-style-type: none">• Change of the Company's name from "PETROMIDIA S.A." into "ROMPETROL RAFINARE-COMPLEXUL PETROMIDIA S.A."
2003	<ul style="list-style-type: none">• The Company changes its name into "ROMPETROL RAFINARE S.A."
2004	<ul style="list-style-type: none">• Shares listing at the Bucharest Stock Exchange, under the "RRC" symbol
2007	<ul style="list-style-type: none">• The Extraordinary General Meeting of the Shareholders of September 17, 2007 decided to acquire the full ownership over the machinery and equipment within the Vega Refinery, located in Ploiești, Str. Văleni No. 146, Prahova County.• Acquiring the ownership over and resuming the possession of the plot of land and all the assets from the premises of the Vega Refinery, the Company established its own Work Point at Ploiesti and obtained effective December 1, 2007, the capacity of Warehousekeeper authorized for the production of energy products also in relation to the Vega Refinery from Ploiesti.
2010	<ul style="list-style-type: none">• Decision No. 2 of the Board of Directors dated October 19, 2010 approved the change of the address of the registered headquarters from Navodari, County Road 226, km 23, Constanta county into Navodari, Blvd. Navodari No. 215, Administrative Pavilion, Constanta county further to Decision No. 187/24.07.2009 issued by the Navodari Local Council on the granting of names to streets and alleys which are not included in the list of street names, and to the addresses communicated by the City Hall of Navodari City in relation to the assignment of street numbers to the Company's property located in Navodari.



2013	<ul style="list-style-type: none">Decision No. 6/2013 issued by the Extraordinary General Meeting of the Shareholders approved the obtainment, by means of purchasing, of the ownership right over the assets consisting in intangible assets, tangible assets, fixed assets (buildings and constructions, technological equipment, measurement machinery and plants, office equipment, IT equipment, transportation means, other tangible assets), investments in progress and stocks, assigned or related to the main activity of petrochemistry, found in the property of Rompetrol Petrochemicals SRL.
2019	<ul style="list-style-type: none">Celebrating of four decades of performance and professionalism In 2019, Petromidia Refinery from Navodari celebrated 40 years of activity, time frame when from one idea it reached to be the largest such unit in Romania and one of the most modern in the Black Sea region.
2020	<ul style="list-style-type: none">Vega Ploiești, 115 years of performance in the refining industry In 2020, Vega Ploiești Refinery, operated by Rompetrol Rafinare, celebrated 115 years of activity in the oil product processing industry. Having a rich history full of events that marked its development, the unit of Ploiești represents an important reference in the Romanian energy field. At present, the refinery does not process crude oil anymore, but only medium distilled products, resulted from Petromidia Refinery of Năvodari. Thus, even if it is the smallest unit in this field in the country, having an annual production output of approximately 400,000 tons, Vega Ploiești develops exclusively high value-added products.

Rompetrol Rafinare S.A. holds the capacity as authorized warehouse keeper, according to the applicable tax legislation. Petromidia and Vega refineries are authorized as tax production warehouses, producing energetic products, in compliance with the tax rules regulating the activity related to the obtainment of energetic products.



II. SHARE CAPITAL STRUCTURE

Effective April 7, 2004, the Company's shares are traded on a regulated market operated by the Bucharest Stock Exchange (Bursa de Valori București SA - "BVB") under the "RRC" symbol and ISIN code ROPTRMACNOR5.

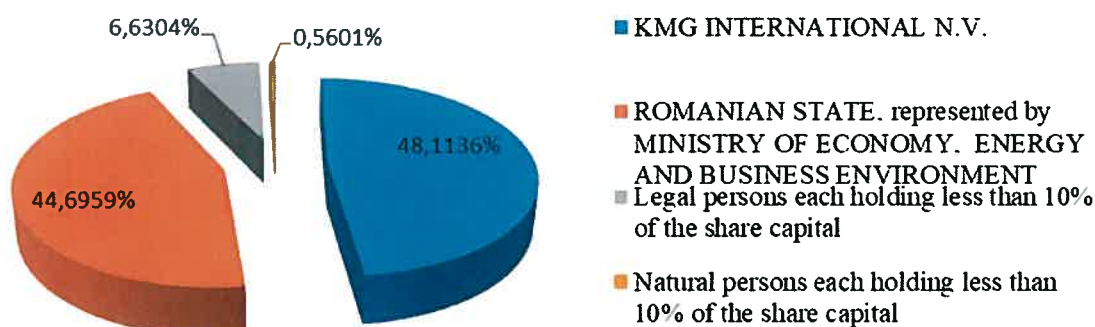
The shares of Rompetrol Rafinare are traded at the Standard category of the Bucharest Stock Exchange. On 31.12.2020, the total number of shares issued by Rompetrol Rafinare is 44,109,205,726, representing a total value of the share capital of Lei 4,410,920,572.6. The Company's shares are common, nominative, issued in dematerialized form, whose records are held by DEPOZITARUL CENTRAL SA Bucharest as independent registry company, authorized by the Authority for Financial Supervisory.

According to the latest Shareholders' Register issued by Depozitarul Central S.A. Bucharest with consolidation date December 31, 2020, the shareholders belonging to the KMG International Group hold 24,098,569,799 shares of RON 2,409,856,979.9, representing 54.6339% of the share capital.

The Romanian State shareholder, represented by the Ministry of Energy, according to the latest Shareholders' Register with consolidation date December 31, 2020 holds 19,715,009,053 shares of RON 1,971,500,905.3 representing 44.6959% of the share capital.

Also, on the same consolidation date, the rest of the shareholders (natural and legal persons) each holding less than 10% of the Company's capital, hold together 295,626,874 shares of RON 29,562,687.4, representing 0.6702% of the share capital.

The structure consolidated by the Depozitarul Central S.A. on 31,12,2020



Note:

On December 31, 2020, the shareholders of the Rompetrol Group hold 24.098.569.799 shares, representing 54.6339% of the share capital



III. 2015 -2020 OPERATIONAL ACHIEVEMENTS

In the 2015-2019 period, the Company registered a series of major achievements, thus reaching in 2019 to set operational records for the two refineries in which it carries out its production activity:

Petromidia Refinery

- **historical record of the total feedstock processed, registered in 2019 – 6.33 million tones**
- record of Auto gasoline production, registered in 2019 - of ~1.37 mil tons, by +10 kt above previous record from 2018;
- the largest Jet production in the history of Petromidia refinery, registered in 2019, of 406 ktons (the highest Jet yield of 6.4%wt), by +89 ktons above previous record form 2018, as a result of production optimizations;

Vega Refinery

- **historical record of total feedstock processed, registered in 2019 - 436 kt;**
- record for hexane production which reached 92 kt level in 2019, above previous record from 2018 by 7 kt;
- Bitumen production of 120 kt, all-time record in Vega refinery history, registered in 2019, above previous record from 2018 by 18 kt;



2020 FOR THE OIL & GAS INDUSTRY

The year 2020 was a difficult year for the entire oil & gas industry, in each area of activity - from oil extraction to the distribution of oil products.

The effects and influences determined by COVID19 were also reflected in the sharp decrease in demand for petroleum products, a high volatility of international quotations for fuels and the negative refining margins.

The impact of these factors at European level has led to the accumulation of high stocks of finished products, forcing companies to quickly adjust their activities and adapt to new conditions. Thus, these ones have rethought their business models and medium-term strategies, being forced to adopt other measures necessary to protect the main activities (e.g. staff reductions, outsourcing, closure or sale of assets, suspension and prioritization of investment projects). The measures were reflected in the evolution of the European refining capacity in 2020 - a decrease of approximately 50 million oil/ year (closed units, preserved or converted) compared to 2019. At this level, another 100 million affected tons are temporarily affected due to the pandemic (technical revisions, processing depth reductions - from an average of 80-85% in 2019 to about 70% in 2020).

In 2020, the gross refining margin - a key indicator for the refining sector, for the first time recorded a negative level for more than four months in a row. Between May and August, the refining margin was negative, about -14 USD /ton. The negative refining margin could be explained by the fact that the value of a ton of oil product is lower than the value of the raw materials necessary to obtain it, to which the processing costs are added.

2020 FOR ROMPETROL RAFINARE S.A.

These evolutions were also reflected in Rompetrol Rafinare's activity, 2020 being one of the most difficult years in its history.

The sudden decrease in fuel sales due to the restrictions imposed by the pandemic, the lack of fuel deliveries for aviation, the obligation to make environmental investments and to comply with the general revisions of production units, all these put pressure throughout both Rompetrol Rafinare S.A. as well as the KMG International Group to maintain a financial balance.



With considerable efforts, the Company managed to protect and maintain its production activities, **but also to continue to be a pillar of stability for employees, customers, business partners, local and central authorities.**

The employees have been at the heart of the strategy of Rompetrol Rafinare S.A. in 2020, both protecting them and minimizing the risk of infection with the new virus and keeping jobs.

Thus, in order to support our colleagues, digitalization projects for the support functions were implemented, flexible work or work from home programs were developed, as well as other measures for providing IT equipment and solutions.

To these we added the efforts to maintain jobs, in the context that this period was characterized at national level by decisions of technical unemployment, reduced work schedule, collective dismissals, closures or suspension of activities directly affected.

In the current context, all these efforts were reflected in the negative results recorded in 2020. For example, the Operating Result indicator recorded a loss of approximately 635 million Lei in 2020 compared to a profit of approximately 65 million Lei in 2019, according to the audited data.

The role and impact of Rompetrol Rafinare S.A. on the national economy was a major one in 2020, both by maintaining our refineries and Group's gas stations in operations, continuing the modernization and development projects (general turnaround), but also by the level of contributions to local and central budgets (about Lei 4.85 billion - the equivalent of USD 1.15 billion).

As the only domestic polymer manufacturer, Rompetrol Rafinare S.A. managed to develop a new range, vital in the production of medical protective equipment. It is used for the middle layer of the masks, the most important layer for filtration and protection against.

Currently, Rompetrol Rafinare S.A. is the only manufacturer in the region that can provide the raw materials needed to make medical equipment (masks, caps, coveralls), necessary to reduce the spread of the Covid-19 virus.

Petromidia refinery managed to achieve a good refining operational performance in 2020, for its main technological and operational parameters, such as:

- ✓ White finished products yield of 85.93%wt;
- ✓ Technological loss of 0.89%wt;
- ✓ Energy Intensity Index of 99.17%.



In respect of Vega refinery (the oldest processing unit operating in Romania (since 1905) and the only domestic producer of bitumen and hexane), the total throughput was 363,803 tonnes in 2020, lower by 16.56% for 2020 full year if compared with full year 2019 when the total throughput was 436,018 tonnes.

Vega refinery also managed to achieve good refining performance results in 2020:

- ✓ Technological loss of 0.75%;
- ✓ Energy consumption of 2.57GJ/t;
- ✓ Mechanical Availability of 98.7%.

Vega works in perfect synergy with the **Petromidia - Năvodari** refinery, the largest in Romania and one of the most modern in the Black Sea region. Thus, **Petromidia** provides to the refinery in Ploiesti the raw materials/semi-finished products needed to obtain special products with high added value.

Among the most important development and modernization investments finalized in the 2015-2020 period in Rompetrol Rafinare SA (Petromidia refinery, Petrochemical unit inclusive and Vega refinery) we notice:

- the 2015 refinery general overhaul project
- rehabilitation of IPPA facility and RR Ramp projects, preparatory work for the implementation of the TAS automated petroleum product loading system (year 2016)
- IPPA loading process improvement project- replacement of TAS related equipment (2017)
- Angel hair/dust reduction in LDPE bunkers (trapping system) project (year 2017)
- implementation of APC (Advance Process Control) in CDU unit project (year 2017)
- replacement of stripping column 185C2 project (year 2018)
- replacement of 140-C1 and 140-C2 columns Hexane unit from Vega refinery (year 2018)
- modernization of the In Line Blending Unit project (year 2019)
- modernization of products loading ramps to increase the load capacity and to reduce the technological consumption and emissions at loading products projects (year 2019)
- LPG recovery from DCU gases (year 2019)
- Petromidia Refinery, Petrochemicals and Vega Refinery 2020 General Turnaround



- ISCIR authorization (State Inspection for Control of Boilers, Pressure Vessels and Lifting Installations) for the equipment from both refineries (year 2020)
- Replacement of reactor 130 R1, R2, R3 (year 2020)
- Fluid Catalytic Cracking (FCC) Unit Rehabilitation (year 2020)

Also, over the entire period 2016-2020, the following were carried out and finalized:

- projects of rehabilitation and modernization of storage tanks for raw materials and petroleum products from the two refineries (Petromidia and Vega)
- planned shutdowns of the two refineries and the Petrochemical plant from the Petromidia platform in order to perform the necessary works to maintain the installations at the optimal operating parameters
- ISCIR authorization / reauthorization projects for pipes and machines to comply with the norms in force
- catalyst replacement / regeneration projects from Petromidia refinery installations

2015 – 2020 operational indicators: Petromidia Refinery

		2015	2016	2017	2018	2019	2020
Processed raw materials	Kt	4,950	5,408	5,662	5,925	6,331	4,864
Production of gas	Kt	1,206	1,448	1,488	1,586	1,628	1,159
Production of diesel & jet fuel	Kt	2,683	2,751	2,979	3,058	3,323	2,649
Sales of fuels - internally	Kt	1,662	1,884	2,128	2,215	2,557	2,380
Sales of fuels - export	Kt	2,038	2,118	2,111	2,229	2,169	1,248
Internally – fuels	%	45%	47%	50%	50%	54%	66%
Export - fuels	%	55%	53%	50%	50%	46%	34%

**2015 – 2020 operational indicators: Vega Refinery**

		2015	2016	2017	2018	2019	2020
Processed raw materials	Kt	329	354	373	406	436	364
Production of Nhexan	Kt	71	83	80	85	92	69
Production of Solvents	Kt	34	39	41	43	43	36
Production of Bitumen	Kt	81	91	96	102	120	123
Other products	Kt	139	137	148	167	186	133
TOTAL PRODUCTION	Kt	324	350	365	397	441	361

2015 – 2020 operational indicators: Petrochemical activity

		2015	2016	2017	2018	2019	2020
Processed raw materials							
Propylene	kt	113	124	134	143	153	117
Ethylene	kt	62	65	64	60	38	66
Total polymers production	kt	142	150	147	148	127	143

Rompetrol Rafinare SA 2015-2020 total investments (Petromidia, Vega Refinery and petrochemical sector)

		2015	2016	2017	2018	2019	2020	Total
Investments	RON Mio.	420	154	237	267	261	482	1,821

**IV. 2015-2020 GLOBAL BUSINESS ENVIRONMENT**

		2015	2016	2017	2018	2019	2020
Brent Dated crude oil	USD/bbl	52	44	54	71	64	42
Ural Med crude oil	USD/bbl	51	42	53	70	64	42
Brent-Ural differential	USD/bbl	0.94	1.58	0.96	1.20	-	-
Quotation of the 10 ppm FOB Med unleaded gas	USD/t	557	462	548	662	595	382
Quotation of the ULSD 10 ppm FOB Med Diesel oil	USD/t	494	395	490	638	586	362
RON/USD average exchange rate		4.01	4.06	4.05	3.94	4.24	4.24
RON/USD closing exchange rate		4.15	4.30	3.89	4.07	4.26	3.97
RON/EUR average exchange rate		4.44	4.49	4.57	4.65	4.75	4.84
RON/EUR closing exchange rate		4.52	4.54	4.66	4.66	4.78	4.87
USD/EUR parity		1.09	1.06	1.20	1.14	1.12	1.23
Inflation rate in Romania		-0.95%	-0.54%	3.32%	3.27%	4.04%	2.06%

Year 2015 was a calendar year with special performances in terms of the difference between the quotations of gas and crude oil in the Mediterranean area. The maximum value was reached at the middle of July during the holiday season in the Northern hemisphere, but the registered level was high all the year. These performances were sustained by the decrease of crude oil quotations but especially by the special increase of demand in USA, Africa and Middle East enabling the increase of exports to such destinations. Thus, the situation remained balanced in the Mediterranean area despite the increase of the volumes of processed crude oil.

The fundamental factor, mainly responsible for the significant decrease of crude oil quotations was the significant increase of the crude oil production in OPEC countries (especially the Saudi Arabia and Iraq), and also from countries outside OPEC (USA, Russia and even Europe and Asia) as compared to the previous year.



As regards the evolution of the difference between the quotation of Diesel oil and the quotation of crude oil in the Mediterranean area, it was for a big part of 2015 at the lowest limit of the historical evolution, with particularly low values especially to the end of the year. Although constant, the increase of demand did not keep up with the additional volumes produced as an answer of refiners to the performance of the products in the gas group. This *de facto* condition combined with the increase of exports from Russia to countries located East from the Suez Channel led to stock increase and increased pressure on the performances of the average distillate group in the Mediterranean area.

The evolution of the foreign currency market was focused in 2015 mainly around the following events: the crisis in Greece, the expectations of the Federal Reserve System of the United States of America as regards the increase of interest rates, the poor macroeconomic data in China. EUR started to depreciate by reference to USD starting with 2014, when ECB continued the quantitative relaxation program in order to maintain inflation under control and reduce the increased EUR liquidity on the market. During this program, interest rates decreased reaching negative thresholds. In addition, the European currency was affected by the possible exit of Greece from the Eur area.

In 2016 Brent prices continued their year-on-year downward trajectory, averaging around \$44 per barrel versus the 2015 average of \$52 per barrel. The year began with quite dramatic falls in prices as oversupply continued to put pressure on Brent outright prices, which fell below the \$30 per barrel mark in January before gradually picking up throughout the year. Prices reached their peak of some \$56 per barrel in December following the OPEC and non-OPEC decisions in late November and early December to reduce production by a combined 1.8 million b/d over H1 2017.

Last year, Urals differentials relative to Dated Brent were at their widest level since 2011. Over the first half of 2016, Urals Med averaged at a level of \$1.67 per barrel to Dated Brent, some more than 90 cents per barrel lower than the -\$0.75 per barrel seen in H1 2015. However, the range at which Urals Med traded over this period remained relatively narrow, while H2 2016 was a much more volatile period. In the north, the Urals NWE/Dated Brent spread averaged -\$2.65 in the first half of last year, around \$1.05 wider than the same period in 2015, with differentials plummeting to -\$3.00/barrels in October and picking up to -\$1.70/barrel by the end of the year.



Overall, 2016 was a relatively unusual year for Mediterranean (and global) gasoline cracks. Particularly strong gasoline cracks (and refining margins) at the start of the year led to reasonably high inventories forming in both the US and Europe over the course of Q1/Q2. In the end this kept summer gasoline cracks very subdued for that time of year. Seasonal average levels were only re-attained after the main summer demand period. Nevertheless, since then the sizeable surplus in global inventory levels has been reduced, especially over the Q4 2016 period, with help from healthy demand in most major regions, including Europe.

Diesel markets in 2016 suffered under the weight of contracting global demand concentrated in the Middle East and the Americas, which freed up extra export barrels. Supply also contracted in response, primarily through yield shifts in favor of gasoline and light distillates more generally, yet stocks remained exceedingly inflated at least until July. Some draws started to materialize over H2, possibly thanks to plummeting crude runs in Central & South America; however seen in terms of forward demand, the cover at end 2016 was 1.8 days higher compared to the 5 year average.

European diesel cracks entered the year in a depressed mode and only started to strengthen from May, with support stemming from both road transport and the agricultural sector. Considerably lower inflows for example US and to some extent also Russia were a supportive factor in Q4, yet the inventory overhang kept a firm lid on any major upside, and cracks remained substantially below 2015 levels on average.

Average refining margins of products proved less buoyant in 2016 compared to the prior year. Gasoline cracks played a significant role in this change having stayed under pressure over the summer months. Nevertheless, average margins for simple, medium, and complex setups remained markedly higher than, for example, 2014.

A strong early and late year for the light distillate complex counterbalanced a still pressured (but gradually improving) middle distillate market, while a significantly tighter global fuel oil balance – signified by a marked improvement in cracks - also supported H2. The impact on the feedstock side should also not be underestimated; the Urals Med differential to Brent averaged significantly lower compared to 2015, providing a further margin advantage for these crudes versus other refining regions. Small wonder then that Med refinery intake levels were resilient especially over the latter months of 2016.



The evolution of FX market was concentrated in 2016, mainly around the following events:

- On 10th of March, the European Central Bank (“ECB”) decided to cut key interest rates further (main refinancing rate from 0.05% to 0.00%, deposit rate from -0.3% to -0.4%, marginal lending rate from 0.3 % to 0.25%). ECB President, Mario Draghi, has cut rates to record lows, started a bond-buying program that will add at least 1.7 trillion euros (\$1.9 trillion) in liquidity, and offered ultra-cheap loans to banks as he tries to revive inflation in the 19-nation currency bloc.
- Brexit: Before 23rd of June, the day of the vote, the Brexit concerns continued to accelerate, leading to a global risk-off environment in which EUR started to depreciate vs. USD. Following this, the RON depreciated vs. EUR & USD as well. Euro-area economic confidence weakened in June in anticipation of a U.K. referendum that unexpectedly saw Britons choosing to leave the EU.
- U.S. Election Surprise -Trump scored a surprise victory over Democrat Hillary Clinton for the White House, while Republicans retained control of both the House of Representatives and the Senate. Since Trump’s victory, federal funds futures have almost entirely priced in an increase.

Federal Reserve officials raised interest rates in December for the first time this year and forecast a steeper path for borrowing costs in 2017, saying inflation expectations have increased “considerably” and suggesting the labor market is tightening. After the positive output of Fed meeting, the USD appreciated versus almost all currency.

In 2017 The Brent price started the year moving in a narrow bandwidth around the \$55 per barrel mark, which held until the beginning of March. The months of March through July were characterized by major price volatility with intra-month swings of \$5 per barrel with pressure to the downside ultimately winning out. Brent fell briefly below the \$45 per barrel mark in mid-to-late June, marking the low point for the year. Second semester saw a reversal of this trend, with a series of supply outages and strong demand indications contributing to global stock draws and a growing perception of a tighter global crude market.

High compliance by OPEC and non-OPEC participants to the supply cut deal went a long way to contributing to the perceived rebalancing of markets. Record high crude runs in many places around the world also helped soak up new supply coming online in the Atlantic Basin.



2017 was a turbulent year for Urals differentials. Urals Med and Urals NWE started the year at discounts to Dated Brent of roughly \$1.10 and \$1.75 per barrel respectively (Platts). Both broadly maintained a discount to Dated Brent of \$1 per barrel or more until late May. Both differentials then strengthened against Dated Brent for a couple of months, peaking close to parity with the benchmark crude in late July/early August, with Urals Med briefly pricing at a small premium to Dated Brent. The reason for this strengthening can largely be attributed to lower loadings of Urals NWE from May onward whilst maintenance was carried out on a crude supply pipeline.

The recovery of European medium sour supplies in August and September weakened Urals differentials. The end of September saw the Northern Iraqi region of Kurdistan's referendum on independence. The aftermath of the vote saw Iraqi government forces occupy oilfields in the Kirkuk region, which had previously been under the control of the Kurdish Regional Government. Iraqi crude exports from the Turkish port of Ceyhan dipped considerably following this development. This proved bullish for Urals differentials, with Urals Med and Urals NWE surging 80 cents and \$1.30 per barrel, respectively, in late-September/early October to discounts vs Dated Brent of about 25 cents and \$1 per barrel, respectively (Platts). Low levels of Russian refinery maintenance in Q4 2017 contributed to the continued decline of total medium sour supplies in Europe, which lent strength to Urals differentials. Further supply side support came from the temporary outage of the 450,000 b/d Forties Pipeline System between 11 December and Christmas/New Year.

Med premium unleaded gasoline cracks had an overall healthy year in 2017. Although the highs of 2016 were not sustained on average, strong regional and global demand as well as competition for supply from a resurgent middle distillate complex kept balances in a relatively price-supportive area for most of the year. Global light distillate inventories moved from a high seasonal level at the start of the year to almost in line with the 5-year average by year's end. Mediterranean gasoline demand itself essentially held near levels observed in the prior year. This is a marked change from expectations from just a few years ago and was driven partly by economic gains but also by still relatively low prices and a broad European shift towards buying gasoline cars rather than diesel.

Gasoline cracks did see some pressure in Q4, especially compared to the last two years. One has to keep in mind that winter 2016 & 2017 were especially strong in terms of gasoline cracks, and this year appears to be more in line with typical seasonal developments whereby weak Atlantic Basin demand weighs on cracks until late Q1. Nevertheless, what has been true is that a lack of growth in crude runs in Latin America and some refining issues in the Middle East, such as the prolonged out of the huge RFCC units at Ruwais, have been supportive and should continue to be supportive at least through the start of 2018.



Overall, 2017 was a good year for diesel markets, mostly on the back of strong global demand growth. Additionally, heavy stock draws in Europe and the US helped reduce the global inventory overhang quite significantly. Supported by strong middle distillate fundamentals, diesel cracks in the key refining hubs trended higher y-o-y over most of 2017. Meanwhile, Hurricane Harvey's landfall and the subsequent drop in US supply in an already tight global market sent cracks temporarily to multi-year highs. The rise and fall of cracks was sharpest in Europe, which usually takes in a large number of spare US barrels.

European cracks were on an overall downward trend over Q4, pressured by ample arbitrary inflows and exceptionally strong crude runs as swing refiners in the region ramped up runs in an effort to catch the high cracks wave. Nonetheless, European diesel cracks remained higher y-o-y amid healthy demand growth in Q4 2017. Additional support for European cracks came from lower availability of US exports, which were focused on the Central and South American market. Nonetheless, cracks performed worse than the US and Asian markets, which finished the year near their Harvey highs.

Cracking margins for sour crude in the Med were over 30% higher in 2017 than in 2016. Margins found strong support in higher middle distillate cracks on the back of a booming global economy. Higher margins were also needed to encourage European swing refiners to increase intake in line with surging global demand and the continued outage of a sizeable portion of Latin American refining capacity. As a result, run rates in the European Med were around 160,000 b/d higher in 2017 than in 2016. In Q3, global refining capacity became even tighter due to a hurricane season that proved much more disruptive than in 2016, reducing US crude runs in September by 1.5 million b/d relative to the prior month.

However, pressure began to mount in Q4 not least due to the significant swing capacity drawn into the market. High runs saw gasoline cracks weaken while fuel oil cracks continued on a downward path that started in the summer as ample pressure came from sharply rising crude price. Mediterranean cracks were also negatively impacted by a stronger Urals market on the back of high runs and tighter availability of medium-sour supplies in the region. The discount of Urals Med to Dated Brent was around \$1 per barrel, narrower in Q4 2017 than in Q4 2016.

In 2018 Dated Brent increased by +17.1\$/bbl. (+31.6%) in 2018 vs. 2017 and settled to a year average of 71.3\$/bbl., with the highest level since October 2014 registered on 4th of October – 86.2 \$/bbl.

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



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

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

During June the crude price decreased as OPEC has agreed to boost oil production, achieving a last-minute compromise that overcame Iran's threats to veto any supply hike. "We have an agreement" to make a 1 million barrel-a-day adjustment on paper to the production cuts implemented by the group in cooperation with allies including Russia, Saudi Energy Minister Khalid Al-Falih told reporters in Vienna. In reality, the accord adds 600,000 barrels a day of oil to the market, about 0.5 percent of global supply, because several members are unable to raise output.

Additional downside pressure on crude price came after U.S. crude oil production in the 9-13 July week hit 11 million barrels per day (bpd) for the first time in the nation's history (Energy Department), as the ongoing boom in shale production continues to drive output.

In September the Dated Brent increased sharply to the highest level since November 2014 (83.6\$/bbl.) as investors focused on the prospect of tighter markets due to U.S. sanctions against major crude exporter Iran, which are set to be implemented in November.

Dated Brent increased in October by +2.3\$/bbl. to an average level of 81.2\$/bbl. The bullish run in prices was following a decision by OPEC not to adjust supply ahead of the pending decline of Iranian barrels under US sanctions in November and the continued decline from Venezuela.

But despite the higher level of October vs September, during the month the crude price had a downward trend from 4th of October (86.2\$/bbl. the highest level since November 2014) till the last day (75.5\$/bbl.), as the start to U.S. sanctions against Iran's fuel exports was softened by waivers that will allow some countries to still import Iranian crude, at least temporarily.

Dated Brent decreased in November by -16.4\$/bbl. (-20.2%) to an average level of 64.7\$/bbl., the highest drop in a single month from the last 10 years, due to the following factors:

- The start of U.S. sanctions against Iran's fuel exports was softened by waivers that will allow some countries to still import Iranian crude, at least temporarily.
- Russian oil output reached another 30-year high of 11.41 million barrels per day in October. This was up from 11.36 million bpd in September, a previous post-Soviet record high.



- OPEC has boosted oil production in October to the highest since December 2016; in addition, OPEC has pumped 33.31 million barrels per day in November, up 390,000 bpd from September.

On 7th of December the OPEC agreed to a six-month supply reduction of 0.8 mb/d from October levels (-2.5%). This led to one of the biggest intra-day jump of Dated Brent, +4.3\$/bbl.

OPEC oil supply fell in December by the largest amount in almost two years as top exporter Saudi Arabia made an early start to a supply-limiting accord while Iran and Libya posted involuntary declines (Reuters). OPEC pumped 32.68 million barrels per day in December, down 460,000 bpd from November and the largest month-on-month drop since January 2017.

European margins started 2018 at a record low level, around 30\$/MT. This pressure was coming from the high run rates in US amid still elevated European runs. US refineries were pumping at maximum taking advantage of the cheaper feedstock (i.e. WTI- Dated Brent differential up to -7\$/bbl.) putting pressure on European margins.

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

In Q1, Jet cracks surged to high levels (16.3\$/bbl.) last seen in 2014 as the European market remained tight due to low imports from other regions.

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

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

In the second part of Q2 the European refinery margins recovered as import requirements remained high with tightness in the Americas and limited Russian exports keeping European cracks supported. Europe remains the main source of global middle distillate cracks strength. During Q3 the Gas oil/diesel cracks hit record highs, spiking to almost \$17 per barrel.



By the end of Q3, the European gasoline cracks decreased from 11.3\$/bbl. to 6.4\$/bbl. (-43%). The European gasoline market saw a lack of demand, as buying interest from the US was lackluster despite the looming hurricane season. The issue is a weak overall gasoline market that has too much production versus demand. Global stocks were up around 8% y-o-y, and European gasoline balances are about to lengthen considerably, with the European Q4-2018 balance averaging around 11% longer q-o-q. Also, with the US looking very well-supplied, it was expected exports to North America to fall. September's figures put European gasoline outflows to North America at just 293,000 b/d, down 39% y-o-y (Reuters).

Q4 2018 shown that Global oil markets are increasingly over-supplied with light distillates, such as gasoline, while there are not enough middle distillates, such as diesel, which has opened a big price differential between the two fuels. To keep meeting healthy demand for mid-distillates, refiners were processing high volumes of crude and creating a glut of gasoline.

The seasonal decline of demand in the West of Suez and ample supply globally have weighed further on the market. ARA (Amsterdam-Rotterdam-Antwerp) gasoline stocks were at a record high for this time of the year (Reuters) and US stocks-built counter-seasonally.

During the autumn maintenance, the refinery margins touched 72\$/MT, helped by sharp fall in crude price and by the Gas oil/diesel cracks which rose to multi-year highs, breaking the 21 \$ per barrel barrier in the Med.

At the beginning of December, the refinery margins decreased consistently to 34\$/bbl. as most European refineries have returned post-maintenance.

Thereupon, the Diesel cracks slide to 15\$/bbl. amid ample upcoming volumes from Primorsk in December, the suspension of the strike at French refineries and less spot buying appetite.

Heavier crudes such as Urals continued to trade at a premium to light, sweet grades such as Brent, while gasoline cracks hovered just above multi-year lows. Market surveyors were expecting at that moment to see margins starting to face pressure as diesel and fuel oil lost some of their recent strength.

The RON/EUR exchange rate remained on a generally upward path in the first part of Q1 2018, witnessing, at the same time, stronger fluctuations, before stabilizing at an average level of 4.66 RON/EUR, somewhat following the return of international financial markets to a state of relative calm.

Looking at the average annual exchange rate dynamics in Q1 2018, the domestic currency (i.e. RON) saw a widening in its nominal depreciation against the EURO (i.e. 2017 average around 4.57 RON/EUR), but especially in its appreciation against the US dollar (i.e. Q1 2018 average around 3.79 RON/USD while 2017 average was around 4.05 RON/USD).



The RON/EUR exchange rate saw wider fluctuations in Q2 2018, tending however to stick to the range of values recorded in the latter half of the previous quarter (i.e. Q2 2018 average around 4.65 RON/EUR).

External influences became prevalent on the domestic market as well in first decade of June, when the RON/EUR exchange rate rose relatively sharply, peaking at a new historical high (i.e. 4.6695 RON/EUR on 21st of June). Afterwards, however, it tended to revert to slightly lower values.

Looking at the average annual exchange rate dynamics in Q2 2018, the domestic currency (i.e. RON) saw a narrowing of its nominal depreciation against the EURO, but also a reduction to a larger extent in its appreciation versus the US dollar (i.e. Q2 2018 average around 3.90 RON/USD).

In Q3 2018, the RON/EUR exchange rate continued to fluctuate, though around relatively lower levels than in the previous quarter (i.e. Q3 2018 average around 4.65 RON/EUR).

After having reached a new low this year at the beginning of August (i.e. 4.6206 RON/EUR on 3rd of August), the RON/EUR saw a new episodic increase, followed by a slightly upward trajectory at the end of the first decade of September.

Looking at the average annual exchange rate dynamics in Q3, the domestic currency saw its nominal depreciation versus the EURO slowdown in this period as well, and posted the first nominal depreciation against the US dollar in the past five quarters (i.e. Q3 2018 average around 3.99 RON/USD).

At the beginning of Q4 2018 the RON/EUR exchange rate stopped its September increase and remain quasi stable until the year end and beginning with the first decade of November the RON/EUR exchange rate has tended to decline slightly.

Looking at the average annual exchange rate dynamics in Q4, the domestic currency saw its nominal depreciation versus the EURO slowdown in this period as well (i.e. Q4 2018 average around 4.66 RON/EUR), and posted the first nominal depreciation against the US dollar in the past seven quarters (i.e. Q4 2018 average around 4.08 RON/USD).

The USD exchange rate had a depreciation of the RON against the US dollar of 4% (Q4 2018 vs. Q4 2017 on average) and an appreciation of 3% y-o-y. The central bank is still vigilant on exchange rate developments and analysts expect that FX stability will be the main driver of interest rate decisions, particularly if depreciation pressure on the national currency (i.e. RON) intensifies. Core inflation is stable, so the National Bank of Romania (NBR) is less likely to be troubled by it. NBR might be concerned about the deteriorating competitiveness which could well increase depreciation pressures on the currency (i.e. RON).



In 2019, crude oil prices fluctuated between 53.2-74.7 USD/bbl., with an average of 64.2 USD/bbl., compared with 2018 when it fluctuated in a range of 50.2-86.2 USD/bbl., averaging 71.3 USD/bbl.

Brent crude, global crude market benchmark, started 2019 at a level of 53.9 USD/bbl, down by 11% or 6.5 USD/bbl vs one month prior, only to go back up by 15% or 8.3 USD/bbl to 62.2 USD/bbl by month-end, the highest increase for a month since April 2016. This dynamic has been mainly driven by the combined effect of oil production cuts measures taken by the Organization of the Petroleum Exporting Countries (OPEC) and its allies late 2018 after oil prices fell due to global growth anxieties and U.S. economic sanctions initiated against Venezuela, which is home to the world's largest oil reserves.

During February 2019 Brent Dtd price increase up to 67.1 USD/bbl during the month, closing at an average level of 64 USD/bbl, i.e. 8% higher compared to January 2019 average price. This increase has been the effect of OPEC+ production cuts pursued measures and increased optimism at that time in regards to the progress in the trade talks between the U.S. and China, which can influence demand for energy from the globe's largest two economies.

During March 2019 Brent price increased to an average of 66.1 USD/bbl, 3% over February 2019 as OPEC output reached its lowest level in four past years. Brent continues to increase up to 74.3 USD/bbl by 25th of April 2019 to an average level of 71.3 USD/bbl or 8% higher compared to March 2019, resulting from ending waivers for Iranian crude oil exports and sanctions on Venezuela.

Brent average price in May 2019 has been of 71.1 USD/bbl close to the average level of April, crude price reaching its annual highest daily level of 74.7 USD/bbl during 16th of May 2019 and then going down by 9.1 USD/bbl or 12% to 65.6 USD/bbl till the month end. Reason of this negative dynamic has been the increasing concerns around United States - China trade dispute, as U.S.'s tariffs on imports from China increased during May 2019. This intensified economic conflict between the world's two largest national economies, China and the United States increased concern of the global economy deceleration.

During June 2019 Brent price remained at a low average level of 64.1 USD/bbl, 10% or 7 USD/bbl below May 2019, being the highest monthly average price drop of 2019. U.S.-China trade tensions have continued to feed expectations for a slowdown in energy demand, the International Energy Agency downgraded its forecast for global oil demand for a second month, to 1.2 million barrels a day from 1.3 million barrels a day the previous month. Following 20th of June 2019 Iran shot down of an United States surveillance drone with a surface-to-air missile over the Strait of Hormuz, Brent price increase to 66.7 USD/bbl on 26th of June and ended the month at 66.1 USD/bbl.



Brent price closed July 2019 month with an average level of 64.1 USD/bbl, in line with June monthly average, yet with an intra-month strong volatility price of 6.3 USD/bbl, crude price going up to 67.3 USD/bbl on 11th of July then down to the month lowest level of 61.1 USD/bbl on 18th of July. Increase dynamic has been triggered by continued tensions in the Middle East and lower reported level of U.S. inventories, while decrease intra-month dynamic has been caused by the increasing demand concerns as global economic data continued to deteriorate.

Crude price continued to decrease during August 2019 to a monthly average level of 59 USD/bbl, -8% below July average level, second highest monthly drop in the year, intensified by US-China trade war tensions, China responding to US increased trade tariffs by adding tariffs of its own to American products.

On 14 September 2019, drones have been used to attack the state-owned Saudi Aramco oil processing facilities in eastern Saudi Arabia. Brent Price increased to 68.2 USD/bbl vs 61.1 USD/bbl prior to this attack, settling at a monthly average level of 62.8 USD/bbl, 6% higher versus August month average.

Following this incident, Saudi Arabia restored production to where it was before the attacks. Trump announced a trade deal with China on 11th of October. October closed with an average Brent price level of 59.7 USD/bbl, continued by a gradual increase during November to a monthly average level of 63 USD/bbl and then in December up 67 USD/bbl average. This fourth quarter 2019 crude price trend has been driven by OPEC plans for more cuts, improved expectations about the world economy growth and U.S. relations with China.

Prior to 2019, for the last nine years interval (2010-2018), sour crude has always been traded at a discount to sweeter lower Sulphur content crude – average discount of 1.1 USD/bbl. For the first time since 2010, during 2019, sour crude Urals has been traded at a positive market price differential USD/bbl vs Brent, and as a simple average of year 2019 Urals-Brent prices were at the same level.

This negative market driven effect has not been anticipated by the international market research agencies and has been triggered by several key factors:

- Lower sour crude availability triggered by the over-compliance of OPEC+ producers with the targeted cuts, first crude type impacted by cuts being the sour type of crudes;
- the chloride pollution incident on Transneft' Druzhba pipeline during April 2019 triggered a shortage during April-May 2019, reflected in the increased Urals differential vs Brent;
- U.S. sanctions on Venezuela state oil company initiated during January 2019 alongside Iran sanctions resumed added additional upward price pressure on sour crude price, by limiting heavy grade supplies into Europe.



The European margins decreased by -6.44 USD/MT (-15.8%) in 2019 vs. 2018 and settled to an average level of 34.32 USD/MT.

In terms of market refining margin environment, 2019 year has recorded one of the lowest levels of market refining margin in the last decade. Main reasons of such low levels have been:

- the historically high Urals to Brent differential triggered by an unforeseen lower sour crude availability. caused mainly by the new US sanctions against Venezuela and the restart of the sanctions against Iran;
- excess of products into the market, impacting within Europe mainly Gasoline Market Cracks;
- global economic downturn, accelerated by the US-China trade war - global growth in 2019 has been downgraded to 2.6% (World Bank), 0.5 percentage points below last year forecast, reflecting weaker-than expected international trades.

The main three products (accounting for approximately 75% of the production yields) market cracks year-on-year dynamics has been the following:

- Diesel Market Crack Spread against Ural (KMGJ main crude oil type) has recorded a level of 121 USD/tonne in 2019, -9 USD/tonne or 7% below 2018 market crack spread;
- Jet Market Crack Spread has been 147 USD/tonne in 2019, -18 USD/tonne or 11% below 2018 market crack spread;
- Gasoline has been the most affected product from market impact perspective, with an yearly market crack level of 130 USD/tonne, -24 USD/tonne or -16% below 2018 market realities. Gasoline Market Crack vs Urals has accounted an historically low level of 130 USD/ton, never met in the past 10 years average levels, ~-28% below historical level (average 2010-2018 actual market crack of 181USD/ton), which aside from the unfavorable Urals price differential has been particularly impacted by the unforeseen global gasoline surplus. Gasoline exports from US increased, as they outperformed all prior forecasts, becoming 2018-end the largest world oil producer with 10.96 million barrels per day, surpassing Saudi Arabia and Russia; this excess export flow of gasoline added significant pressure on gasoline market margins, especially Europe, which is net exporter of gasoline.



Refinery margins however were set to increase over first half of 2020, for most refinery configurations but ultimately decrease, market correction later in 2020 were expected. IMO (i.e. International Maritime Organization) new regulation were already triggering therefore its impact on crude and product markets, refinery operations, shipping market and trading and are now accelerating with much more to come.

Internally, the EUR/RON exchange rate witnessed a relatively abrupt increase in the last part of the first month of 2019, before remaining close to January's historical peak (i.e. 4.7648 on January 25th), on a relatively fluctuating path.

In mid-March, the EUR/RON posted, however, a renewed steeper rise, after which the currency pair stuck to levels in the immediate vicinity of the January peak.

In the first two months of Q2 2019, the EUR/RON exchange rate remained quasi-stable at the higher values recorded at the beginning of the year, before posting a relatively sharp downward correction towards the end of May and in the first days of June and at the beginning of Q3 2019, the downward trend continued and then towards the end of the third quarter an upward trend followed.

Looking at the average annual exchange rate dynamics in 2019, the national currency (i.e. RON) saw its nominal depreciation accelerate versus both the EURO and US dollar in Q4 2019 (the largest nominal depreciation in the past 16 quarters; i.e. maximum EUR/RON exchange rate for the year 2019 was 4.7808 on 21st of November 2019 and maximum USD/RON exchange rate for the year 2019 was 4.3605 on the first day of Q4 2019).

The National Bank of Romania kept interest rates on hold at 2.50%, in line with the broad consensus, and pledged to further tighten liquidity control, likely by introducing new policy tools to enable a faster policy reaction.

In Romania the inflation remained during 2019 at a high level of 4.04%, calculated based on CPI - i.e. Consumer Price Index.

During 2020 Dated Brent decreased by -22.4\$/bbl. (-34.8%) in 2020 as against 2019 and settled to an average of 41.84\$/bbl.

For crude market, the year started with a significant increase in crude oil price due to U.S. and Iran conflict. The price decline intensified by Saudi Arabia price war against Russia, oversupplied markets and unprecedented oil demand shock caused by the COVID-19 pandemic. Dated Brent reached 17.7\$/bbl. on March 31st, 2020 - the lowest level in Q1 2020 since 2003, as OPEC's proposal to reduce production was declined by Russia.



Crude oil spot prices continued the movement with a sharp monthly drop in April (-44%) on a continuing growing oil surplus in the spot market. After that, in the 2nd part of Q2, the crude price shifted to an upward trend and finished Q2 at the level of 42\$/bbl. as the OPEC+ approved a 10 mil b/d cut starting with May.

After Q2 recovery, Dated Brent was quite stable during Q3 with some gains as the market was getting closer to the balance with demand gradually rising and helped by hopes for a stimulus deal to shore up the U.S. economic recovery. Meanwhile, in July, OPEC and Russia agreed to ease record oil supply cuts starting August as the global economy slowly recovers from the Coronavirus pandemic but in September the concerns about the market switching to oversupply started to raise.

During Q4, Dated Brent had an upward trend and succeeded to surge above 50 \$/bbl. for the first time since early March, fueled by hopes of a faster demand recovery as countries start to roll out COVID-19 vaccines.

In December, OPEC+ members reached a deal to raise production, with a first scheduled increase of 0.5 mb/d in January followed by monthly meetings to decide on the pace of future hikes. This is a slower ramp-up than the previously planned 1.9 mb/d January increase.

Urals-Dated differential ended Q2 at the level of +2.5\$/bbl. from -5.4\$/bbl. on April, 1st as Russia's oil export remained low at -20%. After that, until end of Q3 it decreased to +0.26\$/bbl. due to decreased heavy oil demand in Asia and rise flow to Europe.

During Q4, the Urals-Dated Brent differential decreased to negative levels of -1\$/bbl. because Libya began exporting heavy oil at the end of September for the first time since January 2020 and based on expectations that OPEC+ will boost the heavy crude production in January 2021.

European margins decreased by -18.6\$/MT (-56%) in 2020 as against 2019 and settled to an average level of 14.85\$/MT.



Refinery margins started 2020 under pressure due to weak diesel and jet cracks. Diesel crack was influenced by mild weather and higher Russian ULSD exports. In the 2nd part of Q1 margins increased on the back of crude price collapse and Urals-Dated Brent differential decrease. Diesel cracks recovered and performed strongly in March with reduced runs on the back of spring maintenance. At the same time, gasoline cracks weakened in Europe to lows last seen in 2008, as global stocks continued to build while jet demand strongly decreased across the aviation sector as borders lockdowns and travel bans was put in place across the world.

Refinery margins decreased during Q2 due to high stocks of products, and an increase in crude oil price based on OPEC production cuts. Diesel cracks collapsed during Q2 as storage was reportedly nearly 100% due to yield switching towards diesel and records exports from Russia and Asia. Gasoline cracks were low as global stocks increased amid a lack of demand and summer driving season did not help due to coronavirus restrictions. Jet cracks went negative in Q2 pressured by strong demand contraction due to the impact of COVID-19 on air travel. About 70% of Jet volume's yields has been shifted to diesel and 30% to gasoline in the refining process.

Refinery margins slightly recovered in Q3 vs Q2 on the back of increasing end-user demand for road fuels and after autumn maintenance season started, however still not at the levels from the beginning of the year. Gasoline cracks increased during Q3 to their highest level since early March (109\$/MT) as gasoline exports to West Africa picked up and regional demand recovered. Meanwhile diesel cracks reached their lowest level since June 1999 (18\$/MT) due to oversupply as exports from Middle East to Europe increased simultaneous with very weak regional demand. Jet fuel consumption remains the hardest hit section of the global oil market as passengers continued to avoid air travel.

During Q4, European refinery utilization rates reduced to 68% (-12.5% year-on-year) have temporarily lifted margins from their summer lows, but the drop in products demand, on the back of further movement restrictions introduced by European governments, has quickly capped those gains. However, in December the cracks increased as mobility indicators showed signs of a fast recovery as most countries eased restrictions for the Christmas holidays and COVID-19 vaccine started to be delivered.



In terms of exchange rates, internally, the RON/EUR exchange rate remained quasi-stable in the first part of Q1 2020, before embarking on a relatively steep upward path. Half way through Q1 2020, the RON/EUR saw, however, its downward movement reverse suddenly, embarking on an upward path under the influence of an abrupt rise in global risk aversion, given the rapid spread of the coronavirus epidemic, in Europe as well, and heightened concerns over its impact on the global economy.

In Q2 2020 the RON/EUR exchange rate continued its upward trend but tempered its fluctuations, averaging at 4.8367 - below the maximum level of H1 2020 but still at high levels.

In Q3 2020 the RON/EUR exchange rate remained quasi-stable in the first two months, facing in September two episodes of more accentuated growth, averaging at 4.8446, and reaching its maximum level of 4.8750 on 25th of September 2020 for full year 2020.

Looking at the average annual exchange rate dynamics in Q4, the national currency (i.e. RON) saw its nominal depreciation increase versus the EURO but diminish against the US dollar. In Q4 2020 the RON/EUR exchange rate averaged at 4.8714 - the highest average level in the last 5 years.

The National Bank of Romania cut interest rates from 2.50% to 2% in March 2020 in line with other Central Banks to combat pandemic crisis, and a final interest adjustment, was made in August 2020 to 1.5%.

In Romania the inflation remained during 2020 at a level of 2.06%, calculated based on CPI - i.e. Consumer Price Index.



V. 2015-2020 COMPANY'S FINANCIAL SITUATION

In the 2015-2020 period, according to the audited financial statements and drafted according to Order of the Ministry of Public Finances 1286/2012, respectively Order of the Ministry of Public Finances 2844/2016 the Company registered the following indicators:

1. Indicators from the profit and loss account (Lei)

	2015	2016	2017	2018	2019	2020
Operating revenues	9,636,295,232	8,886,095,275	11,257,653,552	14,147,908,234	14,752,142,884	8,233,787,181
Operating expenses	9,232,085,223	8,610,182,195	11,034,292,323	14,036,818,336	14,687,411,515	8,868,816,265
Operating profit/(loss)	404,210,009	275,913,080	223,361,229	111,089,898	64,731,369	(635,029,084)
Financial revenues	167,075,617	126,839,809	332,234,964	156,965,551	148,508,021	395,784,563
Financial expenses	715,031,713	376,086,812	137,259,465	497,903,804	506,684,916	282,560,713
Financial profit/(loss)	(547,956,096)	(249,247,003)	194,975,499	(340,938,253)	(358,176,895)	113,223,850
Total income	9,803,370,849	9,012,935,084	11,589,888,516	14,304,873,785	14,900,650,905	8,629,571,744
Total expenses	9,947,116,936	8,986,269,007	11,171,551,788	14,534,722,140	15,194,096,431	9,151,376,978
Gross profit/(loss)	(143,746,087)	26,666,077	418,336,728	(229,848,355)	(293,445,526)	(521,805,234)
Deferred tax	228,038,083	43,335,431	-	(357,275)	(59,284,942)	(124,017,823)
Net profit/(loss)	84,291,996	70,001,508	418,336,728	(230,205,630)	(352,730,468)	(645,823,057)
<i>Out of which,</i>						
Lei	2015	2016	2017	2018	2019	2020
Interest expenses, net	(55,841,089)	(60,467,059)	(46,804,098)	(78,799,649)	(78,668,620)	(13,344,509)
(Expenses)/Revenues related to exchange rate differences, net	(423,428,107)	(140,228,024)	308,268,386	(181,901,099)	(145,469,631)	208,940,736

**2. Balance sheet indicators (Lei)**

Net asset evolution (lei)	2015	2016	2017	2018	2019	2020
Share capital	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
<i>Out of which paid in</i>	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
Share premium	232,637,107	232,637,107	232,637,107	232,637,107	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	-	-	600,663,192	566,948,566	533,398,479	509,938,277
Other reserves	3,172,596,294	3,169,670,514	3,424,144,892	3,408,959,991	3,386,268,737	3,395,246,289
Retained earnings profit/(loss)	(6,632,906,034)	(6,552,828,638)	(6,486,327,206)	(6,049,107,446)	(6,242,510,389)	(6,567,312,044)
Current year result profit/(loss)	84,291,996	70,001,508	418,336,728	(230,205,630)	(352,730,468)	(645,823,057)
Profit distribution	(4,214,600)	(3,500,075)	(20,916,836)	-	-	-
Total equity	1,263,325,336	1,326,900,989	2,579,458,450	2,340,153,161	1,967,984,039	1,335,607,145
Total assets	6,610,932,792	6,816,492,877	8,095,708,068	7,805,074,361	7,920,362,285	7,398,055,151
Total liabilities (including provisions)	5,347,607,456	5,489,591,888	5,516,249,618	5,464,921,200	5,952,378,246	6,062,448,006
Net asset	1,263,325,336	1,326,900,989	2,579,458,450	2,340,153,161	1,967,984,039	1,335,607,145

The year 2015 is the year in which the company registers positive financial results (net profit of approximately RON 84 million), as an effect of the large modernization program and the increase of the processing capacity of the Petromidia refinery to 5 million tones / year, completed in 2012 and due to a favorable market context, despite of a negative impact due to net losses from exchange rate differences in value of approx. Lei 423 million registered in 2015. Thus, Rompetrol Rafinare registers net profit after a long period of significant net losses, 10 years in a row, before the Company registering net profit last time in the financial year of 2005. During 2006-2014 the Company recorded cumulative net losses in total value of about Lei 4.3 billion, thus reaching at the end of 2015 Rompetrol Rafinare SA to have a reported loss of Lei 6.6 billion with a major impact on the Company's equity.



At the end of 2015 the company's net asset decreased to less than half the value of the subscribed share capital and the Company's management intended to regulate this situation of the ratio between the net assets of the Company and its share capital, within the term provided by law, according to article 153.24 of Law no. 31/1990 regarding the trade companies, as amended and in accordance with statutory decisions.

Therefore, the Board of Directors met in session on 10 November 2016 summon General Meeting of Shareholders, held on 19 December 2016. The agenda of the meeting, among other topics discussed, established as a point - continuing the company's activity in accordance with art. 153.24 of Law. no 31/1990 regarding the trade companies, republished, and that will take the necessary steps to resolve the situation of the net asset. The General Meeting of Shareholders held on 19 December 2016 decided continuing the company's activity and decided to set 31 December 2017 as date for resolving the situation mentioned above. During the year 2017, various analyzes were developed to identify the best method of remediating the net asset.

In 2016, the Company recorded again a net positive result in the amount of Lei 70,001,508, on the background of refining margins improvement by a 23% increase compared to last year, reaching a level of 42.5 USD / t against 34.4 USD / t in 2015.

The financial results of the company continued to be positively influenced by the more favorable market conditions, as well as by the optimization programs of the production processes (increasing the processing capacity and increasing the share of white products from the total finished products) and the operating costs, started in 2014 and continued successfully in 2015 and 2016 (of which, the reduction of thermal and electricity consumption are the most significant).

However, the Company's net result was negatively influenced by the depreciation of the national currency (RON) against the US dollar (USD) during 2016, the Company recording a net loss due to exchange rate differences of approx. Lei 140 million. The USD / RON exchange rate closed at the level of 4.3 at 31.12.2016 as against the level of 4.15 at the end of 2015.

In addition, Rompetrol Rafinare recognized an additional environmental provision worth Lei 52 million based on technical assumptions regarding the total present value of the costs of greening the lagoons from the Vega refinery.



In 2017, Rompetrol Rafinare SA succeeded to register a significant net profit in the amount of Lei 418,336,728 on the background of good refining margins, although decreased compared to those achieved in the previous year and due to recording an important gain from net exchange rate differences in value of Lei 308,268,386 as a result of appreciation of the national currency (RON) against the US dollar (USD) during the year. At the end of 2017, the USD / RON exchange rate was 3.89 against a 4.30 exchange rate since the end of 2016.

Regarding the recovery of the Company's Net asset, during the year 2017, various analyzes were developed to identify the best method of remediating it.

The following events contributed in 2017 to the remedy of the Company's net asset deficit:

1. In November 2017 the company signed with KMG International NV a hybrid loan agreement in total amount of USD 72.2 million loan as a result of conversion of a commercial debt in front of KMG International NV (approximately RON 285.5 million as a result of assignment by Rompetrol Petrochemicals SRL in favor of KMG International NV of a commercial receivable held over the Company). The loan is unsecured, repayable after 51 years, subordinated to any present and future liability of the company and the interest it is computed and becomes payable if certain legal conditions and of profitability are met. In accounting terms the present loan was treated as capital item and booked in the Company's accounting record in the "Other reserves" account.
2. Starting December 31, 2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, in respect of buildings category, from cost model to the revalued one. The change from cost to revaluation model will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the building 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 in 2017 was booked in company's records, being recognized in Revaluation reserves account a gain from revaluation of RON 715.08 million and a loss as a result of reevaluation in amount of RON 19.6 million recognized in expenses. 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. The Deferred tax related to revaluation reserves was recognized in other equity elements, thus strictly for presentation purposes of the Company's financial position the Revaluation reserves balance is presented in net of RON 600.66 million, being affected by the deferred tax mentioned before.



Additional to the above adopted measurements mentioned, which had a final effect in the remedy of the Company's net asset level, the net profit realized by Rompetrol Rafinare S.A. in 2017 in amount of RON 418.34 million had a significant contribution to the increase of the Company's net asset.

In 2018 the Company records a negative financial result (net loss for the year amounting to Lei 230,205,630), despite the exceptional operational performances and an increased turnover by 26% compared to the one obtained in 2017 supported by the increased volumes of processed raw materials and of the petroleum products sold, as well as of the increase of international quotations on crude oil and petroleum products.

In 2018, the total throughput for Petromidia refinery was 5.92 million tones, higher by 4.63% if compared with last year when the total throughput was 5.66 million tones.

In 2018, the refining capacity utilization in Petromidia refinery was 91.98%, higher by 6.1% compared with last year.

Despite the historical operational and production results, the refining segment's financial results in 2018, were negatively affected by unfavorable market conditions, Petromidia's gross refinery margin was lower in 2018 compared with last year, 45.95 USD/to as against 50.9 USD/to in 2017. To these was added a negative impact from exchange rate differences of Lei 182 million due to the depreciation of the national currency (RON) against the US dollar (USD) in the last quarter of 2018, thus reaching the USD / RON exchange rate to close at the level of 4.07 at 31.12.2018 as against the level of 3.89 registered at 31.12.2017.

The net result for 2018 was also negatively impacted by elements related to the change of the accounting policy, from the cost model to the revaluation model, as of December 31, 2017 for the Building category within the tangible non-current assets, the Company thus recording an additional expense with depreciation in value of Lei 40 million.

In 2019 Rompetrol Rafinare recorded a negative financial result (net loss for the year amounting to Lei 352,730,468), despite record operating results sustained by the increase of the volume of processed raw materials and of the petroleum products sold, as well as of the optimization and increase of the efficiency of production, energy, logistics and distribution processes.

In 2019, the total throughput for Petromidia refinery was 6.33 million tones, higher by 6.85% year-on-year level if compared with the same periods last year when the total throughput was 5.92 million tones for full year 2018.



In 2019, the refining capacity utilization in Petromidia refinery was 97.5%, higher by 5.53% compared with the same period last year.

The refining segment's financial results in 2019, were negatively affected by unfavorable market conditions, Petromidia's gross refinery margin was lower in 2019 compared with 2018 (i.e. 39.5 \$/t in 2019 vs 45.9 \$/t in 2018). To these was added a significant negative impact from net exchange rate differences of approx. Lei 145 million due to the depreciation of the national currency (RON) against the US dollar (USD) during 2019, thus reaching the USD / RON exchange rate to close at the level of 4.26 at 31.12.2019 compared to the level of 4.07 registered at the end of 2018.

Similar to 2018, the net result for 2019 was negatively impacted by elements related to the change of the accounting policy, from the cost model to the revaluation model, as of December 31, 2017 for the Building category within the tangible non-current assets, the Company thus recording an additional expense with depreciation in the amount of Lei 40 million.

In addition to the years previously analyzed, in 2019 Rompetrol Rafinare SA recorded an increased cost of goods sold due to the significant increase in the price of utilities and environmental expenses. The increase of the environmental expenses in 2019 is due to the acquisition by Rompetrol Rafinare SA of 355 thousand CO2 certificates (approximately Lei 41 million) in order to comply with the regulations regarding CO2 emissions.

In 2020 Rompetrol Rafinare recorded a negative financial result (net loss for the year amounting to Lei 645,823,057), 2020 being a difficult year for the entire oil & gas industry, in each area of activity - from oil extraction to the distribution of oil products. The effects and influences determined by COVID19 were also reflected in the sharp decrease in demand for petroleum products, a high volatility of international quotations for fuels and the negative refining margins. Additional, the Company's activity was impacted also by the planned shutdown of refineries operated by the Company for the conduct of the general turnaround, carried out in March-May 2020.

In 2020, the total throughput for Petromidia refinery was 4.864 million tons, lower by 23% year-on-year level if compared with 2019 when the total throughput was 6.331 million tons.

In 2020, the refining capacity utilization in Petromidia refinery was 71.8%, lower by 25.7% as compared with previous year.



This decrease is due to disruption of oil supply caused by the general turnaround started in March and continued in April, alongside the heavy market demand hit caused by the COVID-19 pandemics measures, the Black Sea weather conditions (strong wind) at the beginning of the year and by the restrictions imposed by the Midia Port Administration.

The refining segment's financial results in 2020, were negatively affected by unfavorable market conditions, capturing the first 2 months of the year very low refining margins prior to shutting down for turnaround in March, and also impacted by the coronavirus pandemic after returning from turnaround at the beginning of May, and as such Petromidia's gross refinery margin was lower in 2020, 15.2 USD/to as against 39.5 USD/to in 2019.

Similar to 2018 and 2019, the net result for 2020 was negatively impacted by elements related to the change of the accounting policy, from the cost model to the revaluation model, as of December 31, 2017 for the Building category within the tangible non-current assets, the Company thus recording an additional expense with depreciation in the amount of Lei 28 million.

In 2020 the Company booked a positive outcome on the CO2 certificates litigation that Rompetrol Rafinare won against the Romanian State, recognized a revenue towards the State in amount of RON 153.8 million. In the same time the Company estimated the purchase of 766 thousands CO2 certificates needed for 2020 compliance in amount of RON 133.5 million based on the emissions as of 31 December 2020 out of which recognizing an estimated expense of RON 121.7 million in Other operating expenses, the difference of RON 11.8 million being considered in the cost of sales. The net effect of these recordings was a positive one in amount of RON 20.3 million.

Thus, the net negative cumulated result obtained by the company in the 2015-2020 period was determined and mainly influenced by:

- **The high volatility of the international quotations for crude oil and petroleum products on the oil and natural gas market, which has generated decreased refining margins from year to year in 2017-2020 compared to 2015-2016, reaching even negative levels during 2020. The gross refining margin - a key indicator for the refining sector, for the first time recorded a negative level for more than four months in a row during 2020. Between May and August, the refining margin was negative, about -14 USD /ton.**



- **A series of macroeconomic factors, such as the depreciation of the national currency (RON) against the US dollar (USD), the Company recording losses from net exchange rate differences at accounting level. Overall the Company booked in period 2015-2020 a cumulative loss from net exchange rate differences in amount of approximately Lei 374 Million – only in 2017 and 2020 the Company was on a gain net position due to the appreciation of the national currency in those years, thus recording an income from cumulative net exchange rate differences of approx. Lei 517 million, in the rest of the years registering a cumulative net loss from exchange rates differences in the amount of approx. lei 891 million Lei.**

- **Other extraordinary events like:**
 - **registration of additional environmental provisions in 2016 worth RON 52 million based on technical assumptions regarding the total updated value of the costs of greening the lagoons at the Vega refinery.**
 - **changing of the accounting policy, from the cost model to the revaluation model, as of December 31, 2017 for the Building category within the tangible non-current assets, an aspect that generated additional expenses in the amount of almost Lei 128 million for the period 2017-2020.**
 - **the acquisition by Rompetrol Rafinare SA of 355 thousand CO2 certificates (approximately Lei 41 million) in 2019, respectively the estimated purchase of 766 thousand CO2 certificates (approximately Lei 133.5 million) in 2020 in order to comply with the regulations regarding CO2 emissions, simultaneously with recognizing also a revenue in 2020 towards the Romanian State in amount of Lei 153.8 million, as a result of winning the CO2 certificates litigation against the Romanian State. Overall, the net effect of these recordings represents a cumulative negative impact of approx. RON 21 million in the period 2019-2020.**

In 2015-2020 period, Rompetrol Rafinare was an important contributor to the Romanian State budget, the local budgets and the special budgets paying taxes and duties of RON 33,518 million.



VI. LEGISLATIVE CONTEXT OF THE REPORT

According to the provisions of Art. 153²⁴ of Company Law no. 31/1990, as republished, as subsequently amended, if the Board of Directors establishes that, further to certain losses, established through the annual financial statements approved according to law, the company's net assets, determined as a difference between its total assets and its total debts, were diminished to less than half the value of the subscribed share capital, it shall immediately call the Extraordinary General Meeting to decide if the Company must be dissolved.

Para. 3 Art. 153²⁴ of Law no. 31/1990 mentions the obligation of the Board of Directors to submit to the Extraordinary General Assembly met under the conditions of para. (1) a report regarding the Company's patrimonial situation, accompanied by notes of censors or, as the case may be, of internal auditors. This report must be submitted to the Company's headquarters at least one week before the general assembly date, so that it may be consulted by any interested shareholder. In the Extraordinary General Meeting, the Board of Directors shall inform the shareholders of any relevant facts occurred after the drafting of the written report.

Please find below the provisions of paras. 4 and 5 of Art. 153²⁴ of Law no. 31/1990:

“(4) If the extraordinary general meeting does not decide to dissolve the company, then the company is compelled to proceed, by the closing of the financial year after the year in which the losses were established, at the latest, and subject to the provisions of Art. 10, to the share capital decrease by a quantum at least equal to that of the losses which could not be covered from reserves, if in this interval the company's net assets were not re-established up to the level of a value at least equal to half the share capital.

“(5) In case the extraordinary general meeting does not meet according to para. (1) or if the extraordinary general meeting could not validly deliberate on the second call, either, any interested person may address the court to request the company's dissolution. The dissolution may also be requested if the obligation imposed to the company according to para. (4) is not observed. In any of these cases, the court may grant the company a term which may not exceed 6 months to regularize the situation. The company shall not be dissolved if the re-establishment of the net assets up to the level of a value at least equal to half the share capital takes place until the time when the dissolution court decision remains final.”



VII. ANALYSIS OF THE CURRENT SITUATION OF THE PATRIMONY OF ROMPETROL RAFINARE S.A.

On March 17, 2020, the Board of Directors of the Company decided to convene the Ordinary General Meeting of Shareholders ("OGMS") for April 29, 2020, to discuss and approve, among other things, the Company's financial statements for the year 2019 ("2019 Financial Statements").

According to point 2b) of the Notes to the Financial Statements (available on the Company's website for consultation by the shareholders of the Company), the net assets of the Company at December 31, 2019 amounted to RON 1,967,984,039, while the share capital at the same date was amounts to RON 4,410,920,573. In other words, as of December 31, 2019, the value of the Company's net assets was less than half of the value of the subscribed share capital, which is known as "reduced capitalization".

Pursuant to art. 111 paragraph (2) point (a) of the Companies Law, the GMS is the corporate body competent to discuss, modify and approve the financial statements.

According to the Decision of the Board of Directors no. 2 / 17.03.2020, the Board of Directors approved the convocation and convened the EGMS for April 29, 2020, having on the agenda, among others, the adoption by the GMS of a decision confirming the continuation of the Company's activity, if the GMS will have been approved previously the financial statements.

In addition, para. (4) in art. 153²⁴ of the Companies Law stipulates that, unless the EGMS decides to dissolve the company, then, **by the end of the following financial year following that in which the OGMS approved the financial statements confirming the statement of net assets**, the company must proceed to reduce the share capital at least equal to the value of losses, if up to this date, the value of the company's net assets was not reconstituted to a value at least equal to half of the subscribed share capital.

On April 29, 2020, following the approval by the OGMS of the financial statements of the Company corresponding to 2019, the EGMS approves the decision confirming the continuation of the Company's activity.

Considering the legal provisions mentioned above and taking into account the approval of both the individual financial statements audited for the financial year 2019 by the OGMS of April 29, 2020, and the continuation of the Company's activity by the EGMS of April 29, 2020, the Company has the obligation to solve the problem of reduced capitalization by the end of 2021, as the end of the financial year following the one in which the losses were found.



On March 24, 2021, the Board of Directors of the Company decided to convene the Ordinary General Meeting of Shareholders ("OGMS") for April 28, 2021 to discuss and approve, among other things, the Company's financial statements for the year 2020 ("2020 Financial Statements").

On April 28, 2021 OGMS approves the Company's financial statements for the year 2020.

According to the Company's financial statements for the year 2020, The Company's net asset amounting to RON 1,335,607,145 million as at 31 December 2020 (2019: RON 1,967,984,039 million) continues to be at a level lower than a half of the value of share capital (amounting to RON 4,410,920,573 as at 31 December 2020).

The Company's Board of Directors assessed the current operational and financial situation and considers that necessary measures can be taken in order for the Company to continue its activity under optimum conditions. In addition, the assessment considered the stability of the raw material (crude oil) supply activity ensured through the trader of the KMG International Group and the fact that Rompetrol Rafinare received a letter of support from its main shareholder, KMG International NV, valid for the next 12 months from the date of approval of the financial statements. The Company's Board of Directors believes that the support from KMG International NV and banks is sufficient to enable the Company to continue its operations and settle its obligations in the ordinary course of business.

Regarding the seizures imposed by DIICOT in May 2016 in course of some legal procedures, we mention that on April 22, 2019 DIICOT issued an ordinance whereby all the participations owned 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 distraint is lifted entirely but to protect the civil parties, namely Faber and State Authority which manages the States assets, a temporary seizure is kept up to USD 106 million over 4 (four) installations of RRC for a limited period of 30 days. Both Faber and the Group challenged it. The Group challenge filed in on 27 December 2019 concerns the relevant criminal charges to be dismissed on merits and not because of passing the status of limitation. On 7 February 2020 DIICOT rejected the Group challenge against 5 December 2019 Ordinance. The group submitted to Supreme Court challenge against the DIICOT rejection and the first hearing was scheduled for 8 April 2020. The last term was schedule for 29 May 2020 and the Court postpone it for 26 June 2020 to allow the parties to prepare their defenses. On 10 July 2020, the Supreme Court issued the final decision according to which all the complaints formulated against the ordinance issued on 5 December 2019, issued in file no. 225 / D / P / 2006 by the PICCJ-DIICOT were rejected as inadmissible and unfounded.



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 USD 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 - 2004. The hearing is scheduled for April 14 but the case has been suspended due to the emergency enforced since 16 March 2020. The next hearing was settled for 08 June 2021.

As mentioned in section VI above, according to art. 153²⁴ (4) of the Companies Law ***"If the extraordinary general meeting does not decide on the dissolution of the company, then the company is obliged that, at the latest until the end of the financial year after the one in which the losses were found and subject to the provisions of art. 10, to proceed with the reduction of the share capital by an amount at least equal to that of the losses that could not be covered from reserves, if in this interval the net assets of the company were not restored to the level of at least equal to half of share capital"***.

As a result, it can be understood that the Company has two alternatives for solving the problem of reduced capitalization:

- (i) to reconstitute the net asset, an alternative that is optional for the Company, or
- (ii) to reduce the share capital with at least the value of the losses, a measure that is mandatory if the Company's net assets are not restored in time.

From the perspective of the reconstitution of the net asset, the simplest method of reconstitution of the net asset consists in the increase of the share capital, either with or without the issue premium.

In addition, other options for restoring the net asset may consist of:

- (i) revaluation of the fixed assets of the Company, aiming to update the value of the assets of the Company at their fair market value;**
- (ii) restructuring the Company's debts to its creditors, to the extent possible and / or**



(iii) evaluating and updating the financial investments held by the Company.

The second alternative that can be used by the Company to solve the problem of reduced capitalization is to reduce the share capital up to the level at which half of the share capital is at least equal to the value of the net asset value, at the same time of covering the reported loss with the same value with which the share capital is reduced. As mentioned above, the reduction of the share capital is a mandatory procedure according to the Companies Law, if the value of the net asset is not reconstituted up to at least half of the subscribed share capital.

According to art. 207 of the Companies Law, the reduction of the share capital can be achieved either (i) by reducing the number of shares, or by (ii) reducing the nominal value of the shares.

In the case of the Company, considering that the nominal value of a share of the Company is Lei 0.1, this being the minimum value provided by law, which cannot be further reduced, the reduction of the share capital in the current situation will be possible only by the decrease of the corresponding number of shares followed by their cancellation.

It is important to note that the reduction of the share capital would only trigger the reduction of the number of shares of each shareholder of the Company, in proportion to its actual participation in the share capital, without prejudice to the share quota of each shareholder.

Also, the book value of the shareholdings held by the shareholders of the company would remain unchanged as a result of the procedure for reducing the share capital, as this reduction of the share capital does not affect the value of the Company's net assets.

Similar to the increase of share capital, in accordance with the Companies Law and the Company's Statute, the reduction of the share capital is decided by the EGMS, with the quorum of at least $\frac{1}{4}$ of the share capital and a majority of at least $\frac{2}{3}$ of the votes held by the participating shareholders.

**Evolution of the net assets in correlation to the Company's share capital:**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net asset (RON)	1,263,325,336	1,326,900,989	2,579,458,450	2,340,153,161	1,967,984,039	1,335,607,145
Share capital (RON)	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
- of which the paid in share capital (RON)	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573	4,410,920,573
- of which the unpaid share capital (RON)	-	-	-	-	-	-
1/2 of the share capital (RON)	2,205,460,287	2,205,460,287	2,205,460,287	2,205,460,287	2,205,460,287	2,205,460,287

As of 31.12.2020, based on the Company's audited financial statements, approved by the OGMS on April 28, 2021, it is noticed that the net asset in amount Lei 1,335,607,145 (at 31.12.2019 in amount of Lei 1,967,984,039) continues to be below half the value of the subscribed share capital (Lei 4,410,920,572.6). The main cause of the continued deterioration of net asset is due to the fact that in 2020 the high volatility of market prices for the oil and natural gas industry mainly determined a significant pressure on the gross refining margins; the low level of market demand, as well as the unprecedented shock caused by the COVID-19 pandemic brought to mobility in 2020 led to the decrease of international quotations on the oil and gas market for petroleum products, together with the decrease of the volume of products sold, generating a strong negative impact in the financial results of the Company. There were significant decreases in turnover, but also in net income. This shock was felt by all players in the industry. This mainly led to the impairment of the Company's operating result, which recorded operating losses in 2020 amounting to 635,029,084 Lei.

The measures that may be taken to remedy the ratio between the net assets and the share capital were presented above.

In this regard, the Company requested the provision by PricewaterhouseCoopers Audit SRL ("PwC Audit" /PwC) of the following services:

1. Evaluation Services

- Valuation of assets (fixed assets) in account 212: buildings registered in the patrimony of Petromidia and Vega refineries (RRC) and Rompetrol Petrochemicals (RPP) on 31.12.2020, with allocation on each fixed asset, including economic depreciation test, in order to estimate the value fair/market value with which they will be reflected in the Company's accounting;



- Valuation of assets in account 213: technical installations registered in the patrimony of RRC and RPP on 31.12.2020, valuation at installation level (groups of fixed assets) - without allocation on each fixed asset, including economic depreciation test, in order to estimate the fair value / value market with which they will be reflected in the Company's accounting;
- Valuation of the Company's holdings in Rompetrol Downstream (DWS), RomOil (RML), Rompetrol Petrochemicals and other holdings.

This preliminary evaluation aims at a proper analysis of the application of this measure of recovery of the net asset through the corresponding changes in the accounting policy of the Company.

2. Accounting consulting services - analysis of the methods by which the Company can fulfill the legal obligation to have the net assets higher than half of the value of the share capital:

- Identifying options to increase net assets and reduce share capital without diluting the interests of minority shareholders;
- Evaluating alternatives and analyzing the impact on financial indicators relevant to the Company; accounting consulting services to Rompetrol Rafinare SA ("RRC" or "Company").

Thus, RRC requested PWC a general analysis of the accounting implications of some potential measures to reconstitute the net asset value up to a value at least equal to half of the share capital, considering the provisions of the Companies Law ("Law no. 31/1990") and the accounting regulations in force.



VIII. CONCLUSIONS OF THE REPORT REGARDING THE SITUATION OF THE COMPANY'S PATRIMONY

In this Report, the company's Board of Directors analyzed the Company's patrimonial situation and took note of the failure to comply with the legal ratio regarding the value of the net assets as compared to the value of the share capital (according to Art. 153²⁴ of Law no. 31/1990).

The Company's management takes the necessary steps to regulate this situation within the timeframe stipulated by the law, based on the stipulations of Art. 153²⁴ of Law no. 31/1990, as subsequently amended and in accordance with the statutory decisions adopted. Currently, the Company's management together with the shareholders analyses how to approach the situation. In this regard, the Company's management prepared a plan with several proposed options in order to remediate the situation, and this is to be submitted to the shareholders' decision. As regulatory options, the Company's management analyzes the concomitant application of several possible measures for the reconstitution of the net asset:

Thus, following the receipt by the PWC consultants of the preliminary reports regarding the mentioned requested evaluation services as well as of the accounting consulting report during April 2021 and of their analysis by the members of the Board of Directors, the following alternatives are outlined as available for redressing the current situation, namely:

- (i) the increase in the value of net assets as a result of the evaluation of both tangible fixed assets and financial investments at fair values;
- (ii) reduction of the share capital by reducing the total number of shares issued by the Company.

The Company's strategy from operational point of view for the following years is to continue to apply 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 production yields in order to increase the share of higher margin products;
- increasing the market share and sales on the domestic market, being the most profitable distribution channel.



Thus:

based on the analysis realized by the external consultant PricewaterhouseCoopers (“PWC”) at the request of the executive management of Rompetrol Rafinare SA,

considering also the Decision of recommendation from 12.05.2021 of the Audit Committee by which it is recommended to the Board of Directors, for the regulation of the net asset situation until 31 December 2021, to propose to the General Meeting of Shareholders to adopt a mixed solution, respectively either measures of evaluation of both tangible fixed assets and financial investments at fair values, or measures of evaluation of the tangible fixed assets, simultaneously with the realization of an operation to reduce the share capital of the Company so as to achieve sustainable values of net asset taking into account a potential loss for 2021, comparable to that recorded in 2020 (pessimistic scenario).

the fact that the members of the Board of Directors also consider that the solution to be adopted in order to address the net asset situation must take into account the forecasts regarding the financial statements of the Company as of December 31, 2021. As the economic context of 2021 remains affected by the Covid 19 crisis, the Board of Directors also considers relevant analyzing a pessimistic sensitivity scenario for 2021, in which the Company could be in a situation to register a level of financial indicators comparable to the one registered in 2020. Furthermore, the Company estimates that the effect of the Covid 19 crisis to diminish, as it adapts to the new context, forecasting the stabilization and overcoming of the difficult market conditions starting with the years 2022/2023,

for the adjustment of the situation of the net assets of the Company until December 31, 2021, the Board of Directors recommends the Shareholders of the Company Rompetrol Rafinare S.A. to adopt a mixed solution as analyzed in the Presentation of the material by PWC consultants on the accounting implications of potential measures to reconstitute the net asset value to a value at least equal to half of the share capital, which include both asset reevaluation measures (tangible fixed assets and financial investments) at fair values, this simultaneously with the realization of an operation to decrease the share capital of the Company so as to achieve sustainable values of net assets, taking into account a potential loss, in a pessimistic scenario, for the financial year 2021.

The Board of Directors of Rompetrol Rafinare SA estimates that the application of the specific measures for the recovery of net asset mentioned in this chapter as well as the evolutions mentioned above, regarding the continuation of the Company's activity, will determine an improvement of the Company's capacity to support its ongoing operations and of its operational and financial results and thus will lead to the remediation of the company's net assets until 31.12.2021.

Board of Directors of Rompetrol Rafinare SA

Chairman

Yedil Utekov



Member

Alexey Golovin



Member and General Manager

Felix Crudu-Teslovann



Member

Nicolae Bogdan Codruț Stănescu



Member

Bogdan-Cătălin Sferiop

