ROMPETROL RAFINARE SA

STANDALONE FINANCIAL STATEMENTS

Prepared in compliance with
Order of the Minister of Public Finance no. 2844/2016

31 DECEMBER 2022

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ROMPETROL RAFINARE SA
STANDALONE STATEMENT OF THE FINANCIAL POSITION
for the financial period ended 31 December 2022
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	31 December 2022	31 December 2021
Intangible assets	3	13,497,269	22,835,858
Goodwill	4	152,720	152,720
Property, plant and equipment	5	4,163,154,164	4,419,108,095
Rights of use assets	6	53,769,901	55,624,904
Investments in subsidiaries	7	3,170,968,557	2,632,755,594
Total non current assets		**7,401,542,611**	**7,130,477,171**
Inventories, net	8	1,226,387,029	1,020,528,534
Receivables and prepayments, net	9	1,676,716,096	1,885,341,204
Derivative Financial Instruments	30	11,856,741	104,688,216
Cash and cash equivalents	10	23,243,490	87,598,088
Total current assets		**2,938,203,356**	**3,098,156,042**
TOTAL ASSETS		**10,339,745,967**	**10,228,633,213**
Subscribed share capital	11	2,655,920,573	2,655,920,573
Share premium	11	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	11	1,205,293,893	1,362,457,265
Other reserves	11	3,467,988,066	3,513,820,106
Accumulated losses		(5,308,123,759)	(4,982,039,271)
Current year result		666,277,159	(450,988,114)
Total equity		**2,919,993,039**	**2,331,807,666**
Long-term borrowings from banks	15	-	418,023,119
Provisions	17	518,326,405	356,577,370
Long-term lease debts	16	54,700,998	56,244,055
Deferred tax liability	23	214,628,629	286,378,445
Total non-current liabilities		**787,656,032**	**1,117,222,989**
Trade and other payables	12	5,648,166,879	6,443,715,363
Contract liabilities	13	98,232,193	132,163,640
Short-term lease debts	16	2,859,828	2,517,639
Derivatives	30	21,584,319	15,908,942
Short-term borrowings from banks	14	283,618,888	185,296,974
Profit tax payable	23	577,634,789	-
Total current liabilities		**6,632,096,896**	**6,779,602,558**
TOTAL LIABILITIES AND EQUITY		**10,339,745,967**	**10,228,633,213**

The standalone financial statements have been endorsed by the Board of Directors on 24 March 2023 and will be submitted for approval by the Ordinary General Assembly of Shareholders on 27 April 2023 by:

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Chairman of the Board of Directors
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Financial Manager
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Prepared by, Alexandru Cornel Anton
Chief Accountant
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	Notes	January - December 2022	January - December 2021
Net revenues from contracts with customers	18	23,026,777,606	12,149,617,467
Cost of sales	19	(21,069,220,156)	(11,962,920,462)
Gross profit		**1,957,557,450**	**186,697,005**
Selling, general and administrative expenses	20	(446,821,707)	(403,333,400)
Other operating expenses	21	(932,811,961)	(175,013,419)
Other operating income	21	748,204,378	62,619,894
Operating profit / (loss)		**1,326,128,160**	**(329,029,920)**
Financial cost	22	(383,275,538)	(204,325,347)
Financial income	22	582,374,723	571,343,150
Net foreign exchange gains / (losses)	22	(323,129,338)	(374,399,749)
Profit / (Loss) before income tax		**1,202,098,007**	**(336,411,865)**
Income tax	23	(535,820,848)	(114,576,249)
Net Profit / (Loss) for the year		**666,277,159**	**(450,988,114)**
Earnings per share *(bani/share)* **Basis**	26	2.51	(1.70)

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ROMPETROL RAFINARE SA
STANDALONE STATEMENT OF OTHER COMPREHENSIVE INCOME
for the financial period ended 31 December 2022
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	January - December 2022	January - December 2021
Net Profit / (Loss)		**666,277,159**	**(450,988,114)**
Other comprehensive income		**-**	**-**
Other comprehensive income to be reclassified to income statement in subsequent periods (net of tax):		-	-
Net gain/(loss) on cash flow hedges	30	(112,915,474)	103,187,894
Total comprehensive income to be reclassified to income statement in subsequent periods (net of tax):		**(112,915,474)**	**103,187,894**
Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):		-	-
Actuarial gain / (losses) relating on defined benefit plan		4,887,837	15,385,923
Revaluation of property plant and equipment		(25)	1,041,967,896
Deferred tax on the revaluation reserve		-	(166,714,864)
Total other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):		**4,887,812**	**890,638,955**
Total other comprehensive result for the period, net of tax		**(108,027,662)**	**993,826,849**
Total comprehensive result for the period, net of tax		**558,249,497**	**542,838,735**

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	Notes	31 December 2022	31 December 2021
Net result before income tax		**1,202,098,007**	**(336,411,865)**
Adjustments for:			
Depreciation and amortisation	19, 20	498,122,670	385,007,551
Provisions for receivables and inventories (incl write-off)	21	78,950,374	20,544,742
Allowance for trade and other receivables		1,934,172	2,220,789
Impairment for property, plant and equipment (incl write-off), net		37,500,431	(45,731)
Loss from revaluation of property, plant and equipment, net		-	52,168,022
Gains from financial investments held at fair value, net	7	(538,212,963)	(554,700,743)
Provision for environmental liabilities, litigations and fiscal	17	154,461,102	51,424,513
Retirement benefit provisions	17	3,631,445	2,092,612
Late payment interest		15,654,933	9,925,198
Unwinding of discount – leases	16	1,866,194	1,916,640
Unwinding of discount – environmental provision	17	(5,109,913)	21,411,266
Interest expenses		344,461,454	177,028,106
Interest income		(43,338,640)	(12,673,075)
(Gain)/Loss on sale or disposal of assets		(798)	(1,050)
Other non-monetary adjustments		-	(86,043)
Unrealised foreign exchange (gain)/loss	22	(1,635,876)	254,428,512
Cash generated from operations before working capital changes		**1,750,382,592**	**69,807,866**
Net working capital changes in:			
Receivables and prepayments		299,095,574	(500,695,750)
Inventories		(284,808,868)	(514,000,227)
Trade and other payables and contract liabilities,		(894,184,405)	1,547,309,966
Change in working capital		**(879,897,699)**	**532,613,989**
Net cash inflow from operating activities		**870,484,893**	**602,421,855**
Cash flows from investing activities			
Purchase of property, plant and equipment		(267,443,983)	(178,570,160)
Purchase of intangible assets		(123,591)	(4,268,054)
Purchase of investments		-	(3,304)
Receipts from selling of assets		798	1,050
Net cash (outflow) from investing activities		**(267,566,776)**	**(182,840,468)**
Cash flows from financing activities			
Cash pooling movement		86,997,515	(228,618,180)
Short - term loans received from banks		749,895,679	92,235,577
Short - term loans paid to banks		(1,365,075,499)	(26,539,161)
Long - term loans paid to banks		-	(520,137,509)
Long - term loans received from banks		210,130,679	201,630,000
Short - term loans repaid to shareholders and related parties		-	(34,452,042)
Lease repayments	16	(4,759,636)	(4,669,368)
Interest and bank charges paid, net		(344,461,453)	(177,028,108)
Net cash (outflows) from financing activities		**(667,272,715)**	**(697,578,791)**
Increase / (Decrease) in cash and cash equivalents		**(64,354,598)**	**(277,997,405)**
Cash and cash equivalents at the beginning of period		**87,598,088**	**365,595,493**
Cash and cash equivalents at the end of the period		**23,243,490**	**87,598,088**

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Explanatory notes from 1 to 31 form an integral part of these financial statements.

ROMPETROL RAFINARE SA
STANDALONE STATEMENT OF CHANGES IN EQUITY
for the financial periods ended 31 December 2022 and 31 December 2021
(All amounts expressed in Lei ("RON"), unless otherwise specified)

	Share capital	Share premium	Acumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1st of January 2021	**4,410,920,573**	**232,637,107**	**(6,764,103,609)**	**607,069,377**	**(97,131,100)**	**3,395,246,289**	**1,784,638,637**
Net loss for 2021	**-**	**-**	**(450,988,114)**	**-**	**-**	**-**	**(450,988,114)**
Revaluation reserves	-	-	-	1,041,967,896	-	-	**1,041,967,896**
Deferred tax on the revaluation reserve	-	-	-	-	(166,714,864)	-	**(166,714,864)**
Actuarial gain/losses related on defined benefit plan	-	-	-	-	-	15,385,923	**15,385,923**
Net gain/(loss) on cash flow hedges	-	-	-	-	-	103,187,894	**103,187,894**
Total other comprehensive income for 2021	**-**	**-**	**-**	**1,041,967,896**	**(166,714,864)**	**118,573,817**	**993,826,849**
Total comprehensive income for 2021	**-**	**-**	**(450,988,114)**	**1,041,967,896**	**(166,714,864)**	**118,573,817**	**542,838,735**
Transfer of realized revaluation reserve to Retained earnings	-	-	27,064,338	(27,064,338)	-	-	-
Deferred tax on the realized revaluation reserve	-	-	-	-	4,330,294	-	**4,330,294**
Share capital decrease	(1,755,000,000)	-	1,755,000,000	-	-	-	-
1st of January 2022	**2,655,920,573**	**232,637,107**	**(5,433,027,385)**	**1,621,972,935**	**(259,515,670)**	**3,513,820,106**	**2,331,807,666**
Net profit for 2022	**-**	**-**	**666,277,159**	**-**	**-**	**-**	**666,277,159**
Revaluation reserves	-	-	-	(25)	-	-	**(25)**
Actuarial gain/losses related on defined benefit plan	-	-	-	-	-	4,887,837	**4,887,837**
Net gain/(loss) on cash flow hedges	-	-	-	-	-	(112,915,474)	**(112,915,474)**
Total other comprehensive income for 2022	**-**	**-**	**-**	**(25)**	**-**	**(108,027,637)**	**(108,027,662)**
Total comprehensive income for 2022	**-**	**-**	**666,277,159**	**(25)**	**-**	**(108,027,637)**	**558,249,497**
Transfer of realized revaluation reserve to Retained earnings	-	-	187,099,223	(187,099,223)	-	-	**-**
Deferred tax on the realized revaluation reserve	-	-	-	-	29,935,876	-	**29,935,876**
Transfer to legal reserves	-	-	(62,195,597)	-	-	62,195,597	**-**
31st of December 2022	**2,655,920,573**	**232,637,107**	**(4,641,846,600)**	**1,434,873,687**	**(229,579,794)**	**3,467,988,066**	**2,919,993,039**

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1. GENERAL

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

Rompetrol Rafinare SA production facilities are located in Romania. The number of employees of the Company as at 31 December 2022 is 1,154, respectively 1,112 as at 31 December 2021.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

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

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

The standalone financial statements were prepared based on the historical cost, except for financial instruments and investments in subsidiaries which are classified and measured at the fair value through profit and loss and property, plant and equipment which are measured at revalued amounts through other comprehensive income, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) The going concern

The financial statements of the Company are prepared on a going concern basis. As at 31 December 2022 and 31 December 2021, the Company's net assets amount to 2,920 million and RON 2,332 million, respectively. For the periods ending 31 December 2022 and 31 December 2021 the Company reported a profit of RON 666 million and a loss of RON 451 million, respectively. The accumulated losses recorded until present are due to the fact that the Company was impacted by the refining activity specificity, characterized by a significant volatility and low refinery margins in the past years, but, considering the massive investment trend of the last periods combined with an improvement in market conditions the Company has achieved and is aiming for future positive financial results which will decrease the cumulated loss recorded so far.

Following a detailed assessment there is a favorable economic outlook with a positive impact for road fuels demand on the mid-term driven by increasing motorization rate and small electrification rates in CEE. Accelerated extensive development of controllable channels in Romania remains an important direction for development until 2025, to ensure mitigation of oil and refinery margin fluctuations and increase profitability of system volumes.

However, the future financial performance of the Company is dependent upon the wider economic environment in which it operates. The factors that may affect the financial performance of the Company include supply of crude oil and related crude oil prices which further impacts the refining margins of refined products which is a key determinant of profitability, macroeconomic conditions (ie. increased interest rates, increased inflation rate) as well as energy transition on medium to long term. Furthermore, compliance costs arising from EU Emissions Trading System (ETS) and increased electricity prices and salaries costs may affect the Company's profitability. The above-mentioned factors were taken into account when preparing the 5 years business plan. The approved 5 years business plan includes the expectation of the demand evolution, refining margin and associated costs applicable to the Company. On medium to long term, the potential effects of the decarbonization strategy are also considered in the business plan.

Following the initiation by Russia of the military invasion in Ukraine in February 2022, different sets of economic and non-economic sanctions were imposed by the European Union, the US and other countries to Russia and Belarus. Sanctions imposed affected global energy markets and economic developments considering that Russia's crude oil production accounted for around 10% of global output, while it is the second largest natural gas producer worldwide. The reduction of the supply of crude oil or natural gas, as a result of the above, has an impact on product availability and pricing. There are also long-term consequences to the changes that are happening to global energy flows.

A series of measures were taken with regards to supply of crude oil, sale of petroleum products to ensure there are no disrruptions in the production and distribution processes, while ensuring compliance with the imposed sectorial sanctions. The Company follows closely the developments around the crisis and adjusts its operations accordingly.

The Company does not have direct exposures to related parties and/or key customers or suppliers from those countries. The Company's sources for crude oil are not from Russia and the Company does not have operations in Russia or Ukraine.

On the long-term (2030+) road fuels demand will be negatively impacted by the population decline, higher electrification rate, as well as vehicle energy efficiency improvement. Decreasing demand for fuels putting pressure on refining volumes, utilization and margins.

Based on the market outlook and current position, KMGI Group has two main objectives:

- In the short to mid-term, increase vertical integration and start diversification of business;
- In the mid-long term, to continue further transition from diversified downstream player to energy provider.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

To address these objectives, projects have been defined, corresponding to different time horizons, with highest priority for the short to mid-term projects run in the existing markets and current assets.

The KMGI Group's main business opportunities envisaged until 2030 and investment requirements are:

- E-mobility. The Group's first priority project relates to the electrical vehicle (EV) charging in KMGI's own network. Gradual expansion outside the network is envisaged by 2030). Several station clusters have been defined, e.g., highway cluster with higher installed power (up to 300 kW), main & secondary route cluster with up to 150 kW, while outside-the- network cluster is targeted to display medium charging powers of ~50 kW. With an early commitment strategy to e-mobility, Rompetrol can establish itself as an important player in a booming market in the long-term and capitalize on existing optimum locations.
- Biofuels & e-fuels. The Group expects to invest in bioethanol and biodiesel production. Co-processing of 1st & 2nd generation bio-feedstocks in and construction of a plant, based on second generation cellulosic feedstock (cereal straw, such as wheat, barley).
- Low-carbon energy. KMGI envisaged investments in renewable energy generation (onshore wind farms and solar PV farms with a total capacity of ~200 MW), as well as on-site PV energy generation. The project allows to cover part of the internal demand of the Petromidia refinery & of the retail network in a cost-efficient manner by developing on-site solar PV generation capacities.

The shortlisted projects of KMGI Group amount to over 600 million USD, the large part being attributed to first priority projects.

Diversification through investments in prioritized opportunities will improve the resilience and long-term sustainability of the Group, which in turn will lead to improved profitability and the ability to offer added-value products and services in the coming decades. However, a significant effort will be expected from the Group by 2026 in order to launch the first project wave.

One of the major projects currently under construction is the cogeneration plant on the Petromidia platform. The plant will have a major role in stabilizing the production and distribution of electricity in the region, by ensuring the energy needs of the platform, but also by injecting the surplus electricity into the national grid.

The project, worth over 140 million USD, is financed by the Kazakh-Romanian Energy Investment Fund (KRIEF). The project is a brownfield investment and will integrate the assets of the Midia Thermal Power Plant, as well as its staff, for the operation of the new plant's equipment. Construction began in May 2021 and expected to be completed in August 2023.

To successfully implement its decarbonization strategy and meet the changing context generated by the selected decarbonization projects, certain measures were put in place to ensure new capabilities and experience was attracted, organization buy-in and support, processes and enough resources were allocated. Given the high ambitions and complexity of the strategy, as well as the need to accelerate and over deliver on operational programs to prove execution excellence, complex programs had to be in parallel.

Management expects that all committing borrowing due within the next 12 months from the balance sheet date will be extended or refinanced with similar terms. In this respect, discussions for lenders are ongoing and some changes in the loan structure are expected.

On 30 December 2022, the Company received a letter of support from its main shareholder, KMG International NV, valid for the next 12 months from date of approval of financial statements. Management 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 without substantial disposal of assets, externally forced, reversing of its operations or similar actions.

Considering the Company's budget for 2023, its medium term development strategy and other matters mentioned above, Company's Management considers that the preparation of the financial statements on a going concern basis is appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies

i) Voluntary change of accounting policy for property, plant and equipment

As of 31 December 2021, the Company's re-assessed its accounting for property, plant and equipment with respect to measurement of property, plant and equipment after initial recognition. The Company had previously measured all property, plant and equipment, except for buildings, using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the assets were carried at cost less accumulated depreciation and accumulated impairment losses. Buildings category are measured at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation.

Starting with financial year ended 31 December 2021, the Company's elected to change the method of accounting for property plant and equipment and applied the revaluation model prospectively, except for construction in progress which is measured at cost less any impairment.

With regards the Company's operations, reasons for the voluntary change the accounting policy are as following:

- The transition from cost to revaluation will provide a more transparent and up-to-date picture of the value of the Company's assets.
- The revaluation model provides users with information about the real value of the Company's assets, since fair value reflects the market value. Following the listing on the stock exchange, the parent -company is already exposed to indicators determined based on the market value (Price earnings ratio (PER = Price / EPS), Price / Sales (P/S), Price / Book value (P/BV - price to book value), Price / Cash flow (P/CF - price to cash flow = Price / Cash flow).
- The Company's will measure its assets to reflect any increase or decrease in the market price.
- Shareholders are interested in the future performance of the Company's. The fair value measurement of tangible assets dynamically reflects the evolution of their value in close correlation with trend in oil prices, providing investors with long and medium-term outlook of investment performance.

ii) Voluntary change of accounting policy for measurement of investments in subsidiaries

As of 31 December 2021, the entity chooses to apply IFRS 9, in this case the investments in subsidiaries being measured at fair value through profit or loss (FVTPL) by changing the accounting policy. It represents a change in accounting policy that is applied retrospectively, as if it had always been used.

Thus, the Company restated the comparative amounts for the previous period ending on 31 December 2020, as well as the initial balance on 1 January 2020 with the cumulative effects of applying the change to previous periods.

The Company considers that the evaluation of these investments at FVTPL will provide the users of the standalone financial statements with more relevant information about the value and performance of these entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018 - 2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- ➢ **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- ➢ **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- ➢ **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- ➢ **Annual Improvements 2018 - 2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

Management has assessed there is no material impact at Company's level from application of these amendments.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Management has assessed and there is no material impact at Company's level from application of this amendments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management is in process of assessing the impact at the Company level from application of these amendments.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. Management is in process of assessing the impact at the Company level from application of these amendments.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management is in process of assessing the impact at the Company level from application of these amendments.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management is in process of assessing the impact at the Company level from application of these amendments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Company does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the Company's financial performance, financial position or cash flows.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

Management is in process of assessing the impact at the Company level from application of these amendments.

- **16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. Management is in process of assessing the impact at the Company level from application of these amendments.

e) Significant professional judgements, estimates and assumptions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- ***Revaluation of property, plant and equipment***

The Company's carries its property, plant and equipment at fair value, with the reflection of the changes from this revaluation in the financial statements prepared for that year. The fair value is determined on the basis of revaluations usually carried by qualified evaluation professionals, members of a nationally and internationally recognized professional body in the valuation expertise field.
Revaluations are carried out with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. The frequency of revaluations depends on changes in the fair values of revalued property, plant and equipment. If the fair value of a revalued asset differs materially from its carrying amount, a new revaluation is required. Annual revaluations are needed where there are significant and volatile movements in values. Where fair values are stable over a long period, as might be the case with plant and machinery, valuations might be required less frequently.

The fair value of property, plant and equipment determined after revaluation becomes the depreciable amount of those assets at the beginning of the financial year following the one for which the revaluation was performed.
If the carrying amount of an asset is increased as a result of a revaluation, that increase must be recognized directly in other comprehensive income. However, the increase must be recognized in profit or loss to the extent that it offsets a decrease in the revaluation of the same asset previously recognized in profit or loss.

A revaluation surplus is credited to other comprehensive income and accumulated in equity under the heading of revaluation surplus. An exception is a gain on revaluation that reverses a revaluation decrease (impairment) on the same asset previously recognised as an expense. Gains are first credited to the income statement to the extent that the gain reverses a loss previously recognised in the income statement.

A revaluation decrease should be charged against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus (that is, in reserves) in respect of that same asset. Any balance of the decrease should then be recognised as an expense in profit and loss. A negative revaluation reserve cannot be created.

The revaluation surplus included in equity can be transferred directly to retained earnings when the surplus is realized, usually when the asset is de-recognized. The transfer is made through reserves, not through the income statement. The revaluation surplus can also be transferred as the asset is used by the entity. The amount transferred is the difference between depreciation based on the asset's revalued carrying amount and depreciation based on the asset's original cost. This amount can be transferred from revaluation surplus to retained earnings each year, by means of a reserve transfer.

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

The Company assesses annually at December 31 whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the carrying amounts for major property, plant and equipment are tested for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs. Budgets and forecasts used for impairment calculation generally cover the period of five years. Also, budgets and forecasts are based on management estimates of future commodity prices, market supply and demand and product margins.

Impairment assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs and future capital expenditures. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of the CGUs.

The energy transition is likely to impact future prices of oil and crack level which may affect the recoverable amount of property plant and equipment. Management's best estimate of oil price assumptions used for impairment testing were revised downwards in 2022 and sit within the range of external forecasts.

Though the energy transition may impact demand for certain refined products in the future, management anticipates robust demand for the remaining useful life of its refinery assets.

The Company constantly monitors the latest government legislation in relation to climate related matters as well as the developments in the sector with respect to energy transition. The significant accounting estimates made by management incorporate the future effects of the Company's own strategic decisions and commitments on having its portfolio adhered to the energy transition targets, medium and long-term impacts of climate-related matters and energy transition to lower carbon energy sources. The Company will adjust the key assumptions used in fair value less cost of disposal calculations and sensitivity to changes in assumptions should a change be required.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 5.

- ***Provision for environmental liability***

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

The climate change and energy transition may bring forward additional environmental cost for oil and gas industry assets thereby increasing the present value of associated environmental provisions, however considering the ongoing process to analyze the potential impact of the climate change, Management does not expect any reasonable change in the expected timeframe to have a material effect on the environmental provisions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***Deferred tax assets***

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

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

In assessing the recoverability of deferred tax assets, the Company relies on the same forecast assumptions used elsewhere in the financial statements and in other management reports, which, among other things, reflect the potential impact of climate-related development on the business.

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

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

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers trade and other receivables in default depending on the provision matrix.

The Company considers trade and other receivables in default when contractual payments are 360 days past due.

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

- ***Provision for litigations***

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

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

f) Financial instruments

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

a. Financial assets

Initial recognition and measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company measures financial assets at amortized cost, except for financial instruments on EUA certificates, refinery margin and base operating stock which are measured at fair value through other comprehensive income.

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

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

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

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

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

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

Impairment of financial assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Derecognition

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

c. Offsetting of financial instruments

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

d. Impairment of financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property plant and equipment

After initial recognition, property plant and equipment, except for construction in progress, are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

The revaluation surplus of property, plant and equipment for the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the initial cost of the asset will be transferred to retained earnings while the assets are used by the Company.

Upon derecognition of property, plant and equipment, any revaluation surplus related to that asset is transferred to retained earnings, to the extent that such transfer has not already been made during the use of the revalued asset.

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

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus. A negative revaluation reserve cannot be created.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Years
Buildings and other constructions	5 to 30
Tanks	5 to 30
Tools and other technological equipment	1 to 30
Vehicles	1 to 5
Furniture and office equipment	1 to 15
Computers	1 to 10

Following the change in the accounting policy regarding property, plant and equipment from historic cost model to revaluation method, also the economic useful remaining life of the property, plant and equipment was revised as at 31 December 2021. The depreciation of property, plant and equipment based on the revised remaining useful life applies starting 1 January 2022. The change from cost to revaluation provide a more transparent and up to date picture of the value of the Company’s assets.

The Company reviews the estimated residual values and expected useful lives of assets with a certain regularity. In particular, the Company considers the impact of health, safety and environmental legislation in its assessment of expected useful lives and estimated residual values.

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

h) Intangible assets

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

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

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

External and internal costs specifically associated with the maintenance of already existing computer software programs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investments in subsidiaries

The company elected to measure its investments in subsidiaries, associates in accordance with IFRS 9.

At each balance sheet date the investments in subsidiaries are remeasured to fair value and any change in fair value is recognised in profit or loss accounts.

In accordance with IFRS 9, if the fair value of investment in subsidiaries that was previously recognised at fair value through profit or loss decreases below zero, that investments becomes a financial liability that should be measured at fair value through profit or loss.

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

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

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

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

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

The Company constantly monitors the latest government legislation in relation to climate related matters as well as the developments in the sector with respect to energy transition. The significant accounting estimates made by management incorporate the future effects of the Company's own strategic decisions and commitments on having its portfolio adhered to the energy transition targets, medium and long-term impacts of climate-related matters and energy transition to lower carbon energy sources. The Company will adjust the key assumptions used in fair value less cost of disposal calculations and sensitivity to changes in assumptions should a change be required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Provisions

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

Provisions are not recognized for future operating losses.

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

Additional comments on the following specific liabilities are:

Environmental provisions

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

The company has an environmental policy in accordance with existing legislation and any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Company has set up a monitoring system in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any future known environmental requirements.
The value of the environmental obligation is estimated on the basis of relevant environmental studies.

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

l) Leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The most significant category in right-of-used-assets refers to rent for usage of maritime port - berths of Midia Port, for which the depreciation period is the rent contract term, up to 25 years.

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

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

ii. Lease liabilities

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

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

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

A lessee shall determine the lease term as a non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Period covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

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

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

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases lower than USD 5,000. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Inventories

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

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

n) Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional. Refer to accounting policies of financial assets in section f) Financial instruments -initial recognition and subsequent measurement (financial assets).

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

o) Cash and cash equivalents

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

p) Revenue from contracts with customers

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

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

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

(i) Variable consideration

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Volume rebates

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

(iii) Significant financing component

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

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities

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

q) Interest bearing loans and borrowings

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

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

r) Borrowings costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Retirement benefit costs

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

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

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

t) Taxes

- ***Current income tax***

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

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

- ***Deferred tax***

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

- ***Sales tax***

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

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

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

u) Dividends

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign Currency Transactions

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

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

Currency	31 December 2022	31 December 2021
RON / USD	4.6346	4.3707
RON / EUR	4.9474	4.9481

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

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

w) Derivative financial instruments

The Company enters into contracts to purchase and sell crude oil, oil products and CO2 emission rights (CO2 allowances) at future delivery dates. These contracts expose the Company primarily to commodity risks of changes in fair value of crude oil and related oil products and volatility of the price for CO2 emissions rights. The Company also uses financial instruments (primarily Options, Swaps and forwards) to hedge its risks associated with fair value fluctuation relating to certain firm commitments and forecasted transactions.

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

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

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

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

- the hedging relationship consists only of eligible hedging instruments and eligible hedge items;
- at the inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge. Documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements;
- the hedging relationship meets the following hedge effectiveness requirements:
    - existence of an economic relationship relationship between the hedged item and the hedging instrument;
    - the effect of credit risk does not dominate the value changes that result from that economic relationship;
    - the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge the quantity of hedged item.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. Hedging instruments are considered to be highly effective when the effectiveness is between 80% - 125%.

Effectiveness should be recognized to the extent the notional amount of the hedging instrument after considering tax effects.

Hedge effective is assessed based on:
- prospective testing performed at the time when the transactions are executed, based on hypothetical derivative method;
- retrospective testing at balance sheet date.

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

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or a previously unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc).

The Company also acquires CO_2 emission rights for the purpose of meeting the annual quota in accordance with the European Union legislation related to Carbon Emissions, trading and delivering.

The Company hedges priced inventories (both raw materials and finished products) above BOS (basis operating stock) and CO_2 emission rights using futures instruments for a period that approximately matches the operating cycle.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Flow Hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that:
- is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction;
  and
- could affect profit or loss.

The Company buys crude oil from the market, refines it and later sells the finished products (e.g.: gasoline, diesel, jet fuel etc.) and CO2 emission rights. Throughout a given period, the volatility associated with the oil market, both in crudes and in finished products, is transmitted to the Company refinery margin (difference between the purchase price of crude oil and the selling price of finished products). Also, the volatility of CO2 emission rights may expose the Company to significant cash flow variability. To reduce these volatilities, the Company hedges the margin with a swap on a hedged basket as relevant for the period and CO2 emission rights.

Cash flow hedge is applied for the refinery margin Swap instruments and CO2 emission rights futures instruments.

Cash flow hedge is accounted as following:
- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in the Equity;
- as Other Comprehensive Income;
- any ineffective portion is recognized immediately in the statement of profit or loss.

Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see Note 19).

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

x) Emission Rights

CO2 (certificates) emission rights quota are allocated to the Company's refining and petrochemicals operations. For the period 2021 - 2025 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. The Company accounts for the liability resulting from generating of these emissions using the net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies. Income is recognized only when excess certificates are sold on the market.

y) Fair value measurement

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

z) Current versus non-current classification

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

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

Or

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

All other assets are classified as non-current.

A liability is current when:

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

Or

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

The Company classifies all other liabilities as non-current.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Contingencies

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

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

3. INTANGIBLE ASSETS

	Software / Licenses	Other	Intangibles in progress	Total
Cost				
Opening balance as of 1 January 2021	**60,643,593**	**5,099,207**	**9,661,407**	**75,404,206**
Additions	6,862	-	4,139,639	4,146,501
Transfers*	12,938,188	5,109	(12,821,743)	121,555
Closing balance as of 31 December 2021	**73,588,644**	**5,104,316**	**979,302**	**79,672,262**
Additions	92,025	-	(740,756)	(648,731)
Transfers, reclassifications and adjustments*	210,766	-	(198,887)	11,879
Closing balance as of 31 December 31 2022	**73,891,434**	**5,104,316**	**39,659**	**79,035,409**
Accumulated amortization				
Opening balance as of 1 January 2021	**(47,324,051)**	**(1,206,446)**	**-**	**(48,530,497)**
Charge for the year	(7,315,446)	(990,461)	-	(8,305,907)
Closing balance as of 31 December 2021	**(54,639,497)**	**(2,196,906)**	**-**	**(56,836,403)**
Charge for the year	(7,710,562)	(991,174)	-	(8,701,736)
Closing balance as of 31 December 2022	**(62,350,060)**	**(3,188,080)**	**-**	**(65,538,140)**
Net book value				
As of 31 December 2021	**18,949,147**	**2,907,410**	**979,302**	**22,835,858**
As of 31 December 2022	**11,541,374**	**1,916,236**	**39,659**	**13,497,269**

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

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

4. GOODWILL

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Plant and equipment	Furniture and others	Construction in progress	Total
Cost or valuation						
As of 1 January 2021	**192,480,007**	**1,862,400,897**	**4,039,929,864**	**19,354,680**	**335,850,926**	**6,450,016,375**
Acquisitions	-	-	1,373,623	-	177,360,008	178,733,631
Revaluation	123,947,813	(221,234,299)	1,086,060,301	1,026,059	-	989,799,874
Transfers from CIP	-	73,315,026	283,412,802	31,465	(356,798,516)	(39,223)
Elimination of accumulated depreciation against the gross carrying amount of the revalued assets*	(32,527,832)	(431,326,143)	(2,718,767,149)	(11,024,239)	(124,248)	(3,193,769,613)
As of 31 December 2021	**283,899,987**	**1,283,155,481**	**2,692,009,440**	**9,387,965**	**156,288,170**	**4,424,741,045**
Acquisitions	-	-	6,696,394	-	260,759,467	267,455,861
Revaluation	-	-	-	-	-	-
Transfers from CIP	-	106,038,690	109,391,929	311,839	(215,754,337)	(11,879)
Transfers and reclassifications*	-	792,263	(792,282)	-	-	(19)
As of 31 December 2022	**283,899,987**	**1,389,986,434**	**2,807,305,482**	**9,699,804**	**201,293,300**	**4,692,185,008**
Accumulated depreciation & Impairment						
As of 1 January 2021	**(30,871,081)**	**(312,017,215)**	**(2,469,963,145)**	**(10,047,159)**	**(3,171,485)**	**(2,826,070,085)**
Charge for the year	(1,656,751)	(119,350,591)	(251,269,538)	(977,079)	-	(373,253,959)
Impairment	-	41,662	4,069	-	-	45,731
Elimination of accumulated depreciation against the gross carrying amount of the revalued assets*	32,527,832	431,326,143	2,718,767,149	11,024,238	-	3,193,645,363
As of 31 December 2021	**-**	**-**	**(2,461,464)**	**-**	**(3,171,485)**	**(5,632,949)**
Charge for the year	(8,265,581)	(152,344,001)	(324,364,842)	(923,034)	-	(485,897,457)
Impairment	-	(12,543,115)	(24,956,720)	(597)	-	(37,500,431)
Transfers and reclassifications*	-	(39,492)	39,485	-	-	(6)
As of 31 December 2022	**(8,265,581)**	**(164,926,607)**	**(351,743,540)**	**(923,632)**	**(3,171,485)**	**(529,030,844)**
Net book value as of 31 December 2021	**283,899,987**	**1,283,155,481**	**2,689,547,976**	**9,387,965**	**153,116,685**	**4,419,108,095**
Net book value as of 31 December 2022	**275,634,407**	**1,225,059,827**	**2,455,561,942**	**8,776,172**	**198,121,815**	**4,163,154,164**

*) *Includes, transfer from property, plant and equipment to inventories and intangibles and other adjustments in amount of RON 124 thousand in 2021.*

- Impairment

As a result of the revaluation performed for all tangible non-current assets as of 31 December 2021, a reversal of the impairment of tangible non-current assets in balance at year end was booked by the Company's amounting to a net gain of RON 45 thousand.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Construction in progress

In 2022, the significant contribution to the total acquisitions for construction in progress is represented by the Refinery and Petrochemicals General Turnaround (overhaul project in amount of approximately RON 95.9 million), restarting the refinery after the incident of July 2021 project (about RON 21.7 million), the projects of replacement catalysts (approximately RON 28.9 million), Tank rehabilitation projects (about RON 28.7 million), the projects of replacement strategic equipment (rotors) (approximately RON 6.2 million), the ISCIR projects within the two refineries (about RON 36.3 million) and other projects totaling RON 43.1 million.

At the end of 2022, the main projects remaining in construction in progress refers to the following ISCIR projects within the two refineries (about RON 43.6 million), the replace heater in VD unit, Vega Platform (about RON 17.1 million), restarting the refinery after the incident of July 2021 project (about RON 5.5 million), Replacement of PEM strategic equipment (rotors) (about RON 26.8 million RON), Fire-fighting Water Main Replacement Package 2022 (about RON 4.6 million), Mild Hydrocracking Unit Reliability (about RON 5.7 million) Tank rehabilitation projects (about RON 26.3 million), Preparing to 2024 general repair and 2020 HPP Unit (about RON 7.5 million), the projects of replacement catalysts (about RON 16.5 million) and other refinery ongoing project totaling RON 47.7 million.

In 2021, the significant contribution to the total acquisitions for construction in progress is represented by the restarting the refinery after the incident of July 2021 project (about RON 90.9 million), the replace heater in VD unit, Vega Platform (about RON 15.3 million), the projects of replacement catalysts (approximately RON 9.6 million), Replacement of PEM strategic equipment (rotors) (about RON 20.6 million), Fire-fighting Water Main Replacement Package 2021 (about RON 5.4 million), Swing HDPE to PP (about RON 2.3 million), Tank rehabilitation projects (about RON 3.8 million), Replace VBlock Petromidia project (about RON 2.9 million), the ISCIR projects within the two refineries (about RON 9.0 million) and other projects totaling RON 17.6 million.

At the end of 2021, the main projects remaining in construction in progress refers to the following ISCIR projects within the two refineries (about RON 53.9 million), the replace heater in VD unit, Vega Platform (about RON 16.8 million), restarting the refinery after the incident of July 2021 project (about RON 36.0 million), Replacement of PEM strategic equipment (rotors) (about RON 20.6 million RON), Fire-fighting Water Main Replacement Package 2021 (about RON 5.5 million), Swing HDPE to PP (about RON 2.3 million) Tank rehabilitation projects (about RON 6.3 million), Replace VBlock Petromidia project (about RON 2.9 million), the projects of replacement catalysts (about RON 2.4 million) and other refinery ongoing project totaling RON 9.6 million.

- Disposal

No asset disposals were recorded in 2022 and 2021.

- *Capitalization of borrowing costs*

In 2022 the capital projects were financed from Company's operating cash flow, therefore no borrowing cost directly attributable to the acquisition, construction or production of a qualifying assets was capitalized during 2022 (2021: RON nil).
The Company's borrowing funds obtained for generally for the business are not used for the purpose of obtaining a qualifying asset, thus Management determined that no borrowing cost is considered eligible in 2022 and 2021 for capitalization by applying a capitalization rate to the expenditure on the asset.

- Impairment

The Company performs an annual assessment based on specific asset considerations, as applicable, to identify whether impairment indicators exists and taking into consideration expectations on future estimated cash flows. Impairment tests have been performed by the Company for the carrying value of goodwill, property plant and equipment and right of use assets as of 31 December 2022 on the cash generating units ("CGUs") listed below in Note 5.1.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Rompetrol Rafinare SA has certain items of plant and equipment related to production lines that were no longer used. Related to the assets currently not in use an impairment provision was recognized in amount of RON 37.5 million for Petromidia Refinery (of which HDPE unit amounts RON 23.5 million and the Aromatic complex amounts RON 6.6 million) and RON 2.7 million for Vega Refinery as of December 31, 2022.

In respect of HDPE unit, considering that "Swing HDPE to PP" project was temporary put on hold given the current economic environment, Group Management performed a technical assessment of the future use of HDPE components. Following the assessment prepared it was concluded that, out of the total net book value as of 31 December 2022 in amount of RON 63.2 million, RON 38.4 million represent components which were preliminary assessed as being used in the foreseeable future for the current petrochemicals operational activity, RON 1.3 million was assessed as scrap, and for the remaining of RON 23.5 million an impairment adjustment was recorded as of 31 December 2022.

- Revaluation of property, plant and equipment

Starting with the financial year ended December 31, 2021, the Company implements the voluntary change of the accounting policy for land and equipments of the Company at fair value as the new method leads to obtaining more relevant and reliable information. Buildings are measured using revalued amount following the voluntary change of accounting as of 31 December 2017.

As at the date of revaluation on 31 December 2021, the fair value of property, plant and equipment, except for construction in progress is based on valuations performed by PricewaterhouseCoopers Management Consultants SRL, an accredited independent appraiser with experience on similar valuation exercises. Fair value of the equipment was determined using cost approach for majority of assets, but also the market approach was applied for a number of assets like land and residential buildings. The valuations of equipment was performed by the appraiser based on net replacement cost method and subsequently the items were tested for impairment. A net gain from the revaluation of property plant and equipment of RON 1,042 million was recognized in OCI as of 31 December 2021.

The fair value measurement of property, plant and equipment is considered as Level 3 considering that valuation techniques use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Details about valuation techniques used and key inputs are detailed below.

Description of valuation techniques used and key inputs to valuation of the property, plant and equipment

Rafinery	Valuation technique	Significant unobservable input	Range (weighted average)
Petromidia Equipment	Net replacement cost	Projected crude oil processing capacity of the refinery	5,320 K tons/year (110 K bbl/day)
		The unit cost of an atmospheric distillation for a heavy crude oil refinery, assuming "ISBL" costs - Inside Battery Limit and "overnight" costs (excluding off-site, financing or other costs);	30,6 USD/ton
		The Nelson complexity factor	10,5
Vega Equipment	Net replacement cost	Projected crude oil processing capacity of the refinery	500K tons/year (11K bbl/day)
		The unit cost of an atmospheric distillation for a heavy crude oil refinery, assuming "ISBL" costs - Inside Battery Limit and "overnight" costs (excluding off-site, financing or other costs);	59,9 USD / ton
		The Nelson complexity factor	Vacuum distillation plant 2, n-Hexan 1,5 Rectification 1,0

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Due to the fact that in some cases Nelson complexity factors are either not available (sulfur recovery) or are too general for an accurate estimate, the gross replacement cost for the remaining units was estimated based on the unit cost of the investment. These units are: Amine Treatment (DGRS), New and Old SRU, Nitrogen Plant, HPP, MHC and G1, G100, G200, G300 Cooling Towers.

Petromida's off-site secondary facilities and utilities account for approximately 42% of the total Inside Baterry Limit ("ISBL") costs of the main production facilities related to the Petromidia refinery. Off-site and productive assets are not part of the facilities for the Petromidia refinery.

Vega is currently a niche refinery specializing in the production of solvents and hexane and one of the oldest refineries in Romania. The assets under assessment are production facilities, warehouses for raw materials and (semi) finished products, secondary facilities and utilities. Off-site secondary installations and utilities including crude oil deposits and (semi) finished products - represent about 42% of the total ISBL costs of the main production facilities presented above. This percentage was adjusted by a factor of 1.9 given the technological process that involves much higher storage capacities compared to Petromidia and implicitly more extensive utility networks.

For both refineries, the gross replacement cost for buildings and constructions was applied, depending on the type of building, technical characteristics and construction, surface, using catalogs for appropriate construction costs and adjustments.

The gross replacement cost for Petromidia railways, ramps and cooling towers and Petromidia and Vega tanks were estimated on the basis of unit costs and volumes. Gross replacement cost for specialized assets resulted from updating the acquisition value / revalued value with specific indices or the consumer price index.

The fair value of Petromidia and Vega land was estimated by the market-based approach, the method of direct comparison. For these the transactions and offers of industrial land or land, where industrial facilities are already in operation, were analyzed.

The depreciation was based on the date of acquisition recorded in the accounts and subsequent upgrades, taking into account the environment of use and the normal / technical operating times for the different categories of assets.

Considering that property plant and equipment of the Company are recognized at fair value, and their last evaluation was carried out on December 31, 2021, a depreciation test was carried out as at December 31, 2022, to check if an additional revaluation of the fixed assets is necessary at year end. The value in use was estimated based on the 5-year Business Plan (2023 - 2027) prepared by the company's management. Following the tests carried out, the resulting use value of tangible assets is close to, but bigger than, the accounting value of the assets, so no adjustment of the accounting value is necessary as at December 31, 2022.

If the property, plant and equipment was measured using the cost model, the carrying amounts would be, as follows:

At 31 December 2022	Land	Buildings	Plant and equipment	Furniture and others	Million RON Total
Cost	192	2,328	4,440	20	6,980
Accumulated depreciation and impairment	(35)	(1,438)	(2,951)	(12)	(4,435)
Net carrying amount	**157**	**890**	**1,489**	**8**	**2,545**

At 31 December 2021	Land	Buildings	Plant and equipment	Furniture and others	Total
Cost	192	2,221	4,325	19	6,758
Accumulated depreciation and impairment	(33)	(1,280)	(2,721)	(11)	(4,045)
Net carrying amount	**160**	**941**	**1,603**	**8**	**2,713**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- ***Pledged property, plant and equipment***

The company pledged property, plant and equipment with a net carrying amount of RON 1,080,375,504 (2021: RON 1,145,134,703), as follows:

- guarantees in favor of banks: RON 1,080,375,504 (2021: RON 1,145,134,703);

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

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

The Company filled in a complaint against ANAF to release the precautionary measures imposed back in 2010 when the historical bonds issued by RRC (according to the Emergency Ordinance no. 118/2003) were converted into shares in September 2010 and therefore the Romanian State (Ministry of Energy) became shareholder of RRC for 44.69%.

The last hearing was set for December 6, 2021 and a decision issued on December 20, 2021 in favour of the company by releasing the seizure. The decision was appealed by ANAF to Supreme Court. The first term was set for May 25, 2023.

On 9 May 2016, Rompetrol Rafinare SA was notified that it was included as a civil responsible party in a file under investigation by DIICOT (See Note 28). Also, on the same date, the movable and immovable assets of Rompetrol Rafinare SA, as well as all the investments in subsidiaries, were subject to an asset freeze.
Further prosecutor orders as well statements of defenses were issued and submitted during 2016 – 2019 and finally on December 5, 2019 Prosecutor's Office of Romania closed the criminal file, discharged all allegations and lifted the criminal seizure over RRC assets, but still kept a precautionary seizures over 4 installations (for a value of $106.5m) in case any alleged civil party is damaged by the said ordinance.

On July 2020 the Supreme Court rejected all the complaints against the closing of the file and on October 14, 2022 the remaining criminal seizure was dismissed by the Court.

The Company lifted the criminal precautionary seizure from the Land Book early of 2023.

5.1 IMPAIRMENT TEST

Impairment tests have been performed by the Company for the carrying value of goodwill, property plant and equipment and right of use assets as of 31 December 2022 on the cash generating units ("CGUs") Refining, Petrochemicals. Based on the impairment tests performed, no impairment has been identified.

As the Company is currently in an initial stage for the decarbonization plan (analysis of strategic options without an approved investment plan), apart from the co-generation power plant investment no other projects were included in the analysis. However, the estimated WACC is based on a peer group of listed companies from the oil & gas industry (most of them being aware of the decarbonization requirements and presenting in their reporting packages strategic directions to fulfil low carbon targets), and, therefore, the risk and benefits associated with decarbonization targets are expected to be incorporated by the investors in the required return for the investment (i.e. the cost of capital observed incorporate these needs).

5. PROPERTY, PLANT AND EQUIPMENT (continued)

As of 31 December 2022, the net book value of property plant and equipment including Goodwill for the cash generating units is the following: Refining RON 3,917 million, Petrochemicals RON 47.9 million. The net book value of the right of use assets as of 31 December 2022 is of RON 53.8 million, which is allocated to the Refiney CGU.

Refining

Refining CGU includes the operations of Petromidia Refinery, Polypropylene Installations, Vega Refinery. The recoverable amount of Refining CGU unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 12.1% (2021: 11.4%) and cash flows beyond the 5-year period are extrapolated using a 2.1% (2021: 2.5%) growth rate in line with the expected level of the annual inflation rate for USD. The capitalization rate used for residual values is 10% (2021: 8.9%).

Petrochemicals

Petrochemicals CGU includes the petrochemical business of the Company, mainly Low Density Polyethylene Unit, which is included within the Rompetrol Rafinare, legal entity; the unit is involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 12.1% (2021: 11.4%) and cash flows beyond the 5-year period are extrapolated using a 2.1% (2021: 2.5%) growth rate assumed in perpetuity. in line with the expected level of the annual inflation rate for USD. The capitalization rate used for residual values is 10% (2021: 8.9%).

The Company constantly monitors the latest government legislation in relation to climate-related matters. The Company will adjust the key assumptions used in fair value less cost of disposal calculations and sensitivity to changes in assumptions should a change be required.

Key assumptions used in fair value less costs to sell calculations

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

- Quantity sold;
- Cracks level;
- General expenses;
- Investments;
- Cost of capital;
- Perpetuity Growth rate.

Over the projected period, the quantity of diesel is expected to weight on average 47% of total quantity of products sold by Refinery, whereas the weight of gasoline is expected to remain constant at about 24% of total quantity of products sold. According to the new regulation, in 2023 diesel and gasoline products will incorporate biodiesel 6.5%, respectively 8% bioethanol for gasoline, whereas from 2023 onwards, biocomponent from both gasoline and diesel will be increased up to 10% volume. The decrease in production volume is determined by the general turnaround of Petromidia, planned for 2024 (approximately 55 days). The yield of white products amounts at 85% in 2022 and it is expected to remain relatively flat over the forecast period.

In 2023 the cracks of key products gasoline and diesel are estimated at average of JBC (base case), Wood Mackenzie and Platts forecasts. However, the cracks of diesel are expected to remain below JBC forecast, whereas quotations for gasoline are slightly above the base case scenario of JBC forecast (by 4% on average). This is reasonable and it is in line with JBC expectations of recovering market refining margin in 2023. In 2022, the Refinery margins increased to record levels due to very strong oil products cracks coming from tight supply and increasing mobility in European countries and due to the Urals-Dated Brent differential collapsed to historical low level.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Brent quotation used in KMG's business plan is between the base and high case scenario of JBC forecast.

Additional margin is generated by Petromidia as: 1. Crude oil is acquired at URAL quotation minus a discount. 2. An additional premium to Platts quotation is included in the selling price.

For the last two factors the sensitivity analysis is presented below:

The main assumptions incorporated within the Operating profit margin are the following: Refinery Margin, demand and contribution on retail segments.

In 2022, the Company updated its medium-term development strategy to reflect the trend of increasing demand for refined products during the 2023 - 2027 interval, following the rebound from the Covid-19 pandemic as well as emerging refining constraints. This is reflected in a widening gap between crude and product pricing, forming an upward trend for product pricing, which is strongly influenced by lower outflows of Russian products, in the context of the current undergoing war in Ukraine and its subsequent consequences.

The market refining margin short-term forecast for 2023 - 2024 is aligned with the forecast scenarios from leading independent market research agencies, Kepler Energy, Platts Pira, and Wood Mackenzie. We assume that there will be an improvement in key white products' market crack spreads performance during this period. Is expected the relative strength of key white products' market crack spreads to persist in the medium term from 2025, mainly influenced by the impact of the EU embargo on Russian crude and products, as well as European refining capacity consolidation by that time.

Fuel transportation demand is expected to have return to pre-pandemic levels by 2023 and to continue growing at an annual average rate of approximately 1% year-on-year, starting in 2024.

Unit contribution fuel margins outlook for 2023 onwards has been aligned with the historical multi-annual level performance, taking into account increased market-driven bio-fuel incorporation costs, and at a more conservative level compared to the 2020 - 2022 year-level for the entire 2023 - 2027 interval.

It became a constant preoccupation for KMGI Group that it has to adapt its strategy to the rising climate change concern and energy transition effects. Global focus on climate change has created a risk environment very dynamic and volatile as a result of actions of various actors at global, local or business level. As a result of changing behavior of our clients to reduce emissions it might expect a decline in demand and a negative impact in fossil fuels prices with a potential negative effect on earnings or future investment. Physical effects of climate change might also affect operations.

Pressure of regulators both on climate and sustainability side has added on the need of urgent actions therefore a **Decarbonization Strategy** with clear directions has been developed in which we are seeking to find economically viable solutions to reduce emissions. A climate risk framework including policies and regulations, as well as inclusion of sustainability aspects in current risk management system are directions which KMGI Group wants to strengthen in the future.

A sensitivity analysis was performed of Refinery's FVLCOD (fair value less cost of disposal) in order to ascertain the critical (most sensitive) drivers which influence the value. As a result of this it was considered an increase / decrease for each key value driver as presented in the table below:

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Key drivers	Scenario	Key drivers variance (%)	Key drivers value (%)	FVLCOD (k USD)	FVLCOD variation (%)
Quantity sold	**Base case**	**0%**	**100.0%**	**1,299,203**	-
	Worst case	(5%)	95%	991,560	(23.7%)
	Best case	2%	102%	1,422,260	9.5%
Cracks level	**Base case**	**0%**	**100.0%**	**1,299,203**	-
	Worst case	(5%)	95.0%	1,002,595	(22.8%)
	Best case	3%	103.0%	1,477,171	13.7%
General expenses	**Base case**	**0%**	**100.0%**	**1,299,203**	-
	Worst case	5%	105.0%	1,187,459	(8.6%)
	Best case	(5%)	95.0%	1,410,946	8.6%
Investments	**Base case**	**0%**	**100.0%**	**1,299,203**	-
	Worst case	25%	125.0%	1,144,215	(11.9%)
	Best case	(20%)	80.0%	1,423,193	9.5%
Cost of capital	**Base case**	**0%**	**12.1%**	**1,299,203**	-
	Worst case	1%	13.1%	1,178,373	(9.3%)
	Best case	(1%)	11.1%	1,446,981	11.4%
Perpetuity growth rate	**Base case**	**0%**	**2.1%**	**1,299,203**	-
	Worst case	(4%)	(2.0%)	1,006,287	(22.5%)
	Best case	1%	3.1%	1,411,130	8.6%

To reflect the impact of decarbonization in the impairment test is included the worst-case scenario (potential higher impact due to decarbonization), it is considered a higher increase / decrease of the main factors which impact the FVLCOD for Refinery: quantities, cracks, investments and perpetuity growth rate. However, no impairment risk for the analyzed CGU was identified.

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

2022	**2023**	**2024**	**2025**	**2026**	**2027**
	%	**%**	**%**	**%**	**%**
Rompetrol Refinery	1.9	3.3	4.3	3.4	2.2
Petrochemicals	0.04	2.0	3.5	3.9	4.8

2021	**2022**	**2023**	**2024**	**2025**	**2026**
	%	**%**	**%**	**%**	**%**
Rompetrol Refinery	(0.2)	1.6	2.5	3.7	3.6
Petrochemicals	1.2	2.7	1.6	2.8	3.5

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

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes than no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

Rompetrol Refinery

The break-even point for the current model is achieved under a decrease of 6.9% of Operating profit, reaching the following Operating profit margins:

2022

	2023	**2024**	**2025**	**2026**	**2027**
	%	**%**	**%**	**%**	**%**
Operating profit margin	1.1	1.9	2.4	1.9	1.3

2021

	2022	**2023**	**2024**	**2025**	**2026**
	%	**%**	**%**	**%**	**%**
Operating profit margin	(0.1)	1.6	2.5	3.5	3.5

Petrochemicals

The break-even point for the current model is achieved under a decrease of 15.3% of Operating profit, reaching the following Operating profit margins:

2022	**2023**	**2024**	**2025**	**2026**	**2027**
	%	**%**	**%**	**%**	**%**
Operating profit margin	0.01	0.5	0.9	1.0	1.2

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

2021	**2022**	**2023**	**2024**	**2025**	**2026**
	%	**%**	**%**	**%**	**%**
Operating profit margin	1	2.3	1.3	2.4	3.0

5. PROPERTY, PLANT AND EQUIPMENT (continued)

An increase / decrease of discount rate of 1% will generate the following changes with the CGU's fair value:

2022

Change in discounts rates	Refinery CGU	Refinery Petrochemicals CGU
	%	%
Change in fair value at 1% increase in discount rate	(9.3)	(10.9)
Change in fair value at 1% decrease in discount rate	11.4	13.4

2021

Change in discounts rates	Refinery CGU	Refinery Petrochemicals CGU
	%	%
Change in fair value at 1% increase in discount rate	(10.36)	(12.4)
Change in fair value at 1% decrease in discount rate	13.2	15.1

Perpetuity growth rate sensitivity: an increase/decrease by 1% of the sensitivity growth rate will generated the following changes within the CGU's fair value:

2022

Change in growth rate	Refinery CGU	Refinery Petrochemicals CGU
	%	%
Change in fair value at 1% increase in perpetuity growth rate	8.6	6.6
Change in fair value at 1% decrease in perpetuity growth rate	(18.8)	(5.4)

2021

Change in growth rate	Refinery CGU	Refinery Petrochemicals CGU
	%	%
Change in fair value at 1% increase in perpetuity growth rate	5.4	6.0
Change in fair value at 1% decrease in perpetuity growth rate	(4.4)	(4.8)

6. RIGHTS OF USE ASSETS

	Land, building and special constructions	Plant and equipment	Vehicles and others	Total
Initial cost / revalued				
Opening balance at 1 January 2021	**60,543,194**	**1,735,411**	**1,645,792**	**63,924,397**
Additions	-	-	965,977	965,977
Re-measurement and other adjustments	-	103,665	-	103,665
Disposals	(9,165)	-	(87,408)	(96,573)
Closing balance at 31 December 2021	**60,534,029**	**1,839,076**	**2,524,362**	**64,897,467**
Additions	-	-	331,800	331,800
Re-measurement and other adjustments	445,545	891,130	-	1,336,675
Disposals	-	(176,224)	(15,458)	(191,681)
Closing balance at 31 December 2022	**60,979,574**	**2,553,982**	**2,840,704**	**66,374,260**
Accumulated depreciation & Impairment				
Opening balance at 1 January 2021	**(4,584,490)**	**(1,008,881)**	**(328,084)**	**(5,921,455)**
Charge for the year	(2,402,772)	(566,484)	(478,425)	(3,447,681)
Accumulated depreciation of ceased rights of use assets	9,165	-	87,408	96,573
Closing balance at 31 December 2021	**(6,978,096)**	**(1,575,365)**	**(719,102)**	**(9,272,563)**
Charge for the year	(2,398,189)	(549,638)	(575,651)	(3,523,478)
Accumulated depreciation of ceased rights of use assets	-	176,224	15,458	191,681
Closing balance at 31 December 2022	**(9,376,286)**	**(1,948,779)**	**(1,279,294)**	**(12,604,359)**
Net book value as of 31 December 2021	**53,555,932**	**263,711**	**1,805,261**	**55,624,904**
Net book value as of 31 December 2022	**51,603,288**	**605,203**	**1,561,410**	**53,769,901**

The additions during the year represent mainly contracts concluded by the Company for car leasing.

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

Land, buildings and special construction category includes mainly:

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

Plant and equipment category includes mainly equipment for industrial water pumping stations.

Vehicles and other category includes mainly the agreements in relation to the car fleet rental.

7. INVESTMENT IN SUBSIDIARIES

	31 December 2022	31 December 2021
Investments in subsidiaries	3,170,968,557	2,632,755,594
Total	**3,170,968,557**	**2,632,755,594**

In 2021, Rompetrol Rafinare SA chooses to apply IFRS 9, in this case the investments in subsidiaries being measured at fair value through profit or loss (FVTPL) by changing the accounting policy. The reasoning is detailed in Summary of significant accounting policy, Note 2 i).

Details regarding subsidiaries at 31 December 2022 and 31 December 2021 are as follows:

	Range of activity	Ownership at 31 December 2022	Ownership at 31 December 2021	Balance at 31 December 2022	Balance at 31 December 2021
Rompetrol Downstream SRL	Retail Trade of Fuels and Lubricants	99.99%	99.99%	2,319,469,799	1,840,184,097
Rompetrol Petrochemicals SRL	Petrochemicals	100.00%	100.00%	373,928,869	344,561,543
Rom Oil SA	Wholesale of Fuels; fuel storage	99.99%	99.99%	194,538,392	195,361,513
Rompetrol Logistics SRL	Fuels Transportation	66.19%	66.19%	271,459,390	241,206,574
Rompetrol Quality Control SRL	Quality Control Services	70.91%	70.91%	11,572,106	11,441,866
Total investments				**3,170,968,557**	**2,632,755,594**

**Note: all subsidiaries are Romanian companies*

As at the date of revaluation on 31 December 2022, the investments' fair values are based on valuations performed by PricewaterhouseCoopers Management Consultants SRL, an accredited independent valuer who has valuation experience for similar properties. The fair values of the non-listed equity investments have been estimated using a DCF model in case of Rompetrol Downstream SRL, RomOil SA and Rompetrol Quality Control SRL, while for Rompetrol Petrochemicals SRL and Rompetrol Logistics SRL the fair values were estimated using net asset approach. The valuation using DCF model requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments. Considering that techniques used for the fair value of investments in subsidiaries are not based on observable market data, the fair values are classified as Level 3.

The accounting policy change has been applied retrospectively.

7. INVESTMENT IN SUBSIDIARIES (continued)

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2022 and 2021 are shown below.

Description of significant unobservable inputs to valuation:

Non-Listed equity investments	Valuation Technique	Significant unobservable inputs	Range (weighted average) RON'000 / %	Sensitivity of the input to fair value* RON '000
Rompetrol Downstream SRL	DCF method	Operational expenses	31.12.2022: 627,140 – 693,154 31.12.2021: - 583,140 – 649,154	3% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 143,098 5% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 148,766
		Weight average Cost of capital	31.12.2022: 11.1% - 13.1% (12.1%) 31.12.2021: 10.4% - 12.4% (11.4%)	1 p.p increase (decrease) in the WACC would result in a decrease (increase) in fair value by RON 105,453 (105,687) 1 p.p increase (decrease) in the WACC would result in a decrease (increase) in fair value by RON 134,119 (166,611)
		Gross margin	31.12.2022: 10.68% - 11.21% (10.94%) 31.12.2021: 10.68% - 11.21% (10.94%)	3% increase (decrease) in the gross margin would result in an increase (decrease) in fair value by RON 149,789 (182,345) 3% increase (decrease) in the gross margin would result in an increase (decrease) in fair value by RON 99,144 (87,120)
		Perpetual growth rate	31.12.2022: 1.5% - 3.5% (2.5%) 31.12.2021: 1.5% - 3.5% (2.5%)	1 p.p. increase (decrease) in perpetual growth rate result in an increase (decrease) in fair value by RON 81,867 (67,629) 1 p.p. increase (decrease) in perpetual growth rate result in an increase (decrease) in fair value by RON 83,279 (67,060)
Rom Oil S.A.	DCF method	Yield real estate	31.12.2022: 6.6% - 7.6% (7.1%) 31.12.2021: 6.6% - 7.6% (7.1%)	0.5 p.p increase (decrease) in the yield real estate would result in a decrease (increase) in fair value by RON 13,322 (18,065) 0.5p.p increase (decrease) in the yield real estate would result in a decrease (increase) in fair value by RON 11,809 (15,914)
		Operational expenses	31.12.2022: 3,267 – 3,465 31.12.2021: 4,429 - 4,895	5% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 18,065 5% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 12,312
Rompetrol Quality Control SRL	DCF method	Operational expenses	31.12.2022: 40,949 – 41,776 31.12.2021: 35,345 - 36,038	1% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 1,610 1% increase (decrease) in the operational expenses would result in a decrease (increase) in fair value by RON 3,120
		Weight average Cost of capital	31.12.2022: 11.1% - 13.1% (12.1%) 31.12.2021: 10.4% - 12.4% (11.4%)	1 p.p increase (decrease) in the WACC would result in a decrease (increase) in fair value by RON 878,3 (1,079) 1 p.p increase (decrease) in the WACC would result in a decrease (increase) in fair value by RON 1,647 (2,072)
		Gross margin	31.12.2022: 96,3% - 97.3% (96.8%) 31.12.2021: 97.35% - 97.36% (97.36%)	0.5% increase (decrease) in the gross margin would result in an increase (decrease) in fair value by RON 2,903 0.9% increase (decrease) in the gross margin would result in an increase (decrease) in fair value by RON 3,186
		Perpetual growth rate	31.12.2022: 1.1% - 3.1% (2.1%) 31.12.2021: 1.5% - 3.5% (2.5%)	1 p.p. increase (decrease) in perpetual growth rate result in an increase (decrease) in fair value by RON 350 (290) 1 p.p. increase (decrease) in perpetual growth rate result in an increase (decrease) in fair value by 481 (594)

The net asset approach was used for two entities, Rompetrol Logistics SRL and Rompetrol Petrochemicals SRL These companies no longer have a significant activity following the restructurings carried out in previous years, and their value being to a large extent determined by participations held in other group companies, which were evalued using income approach.

The main steps in this approach are:

- Estimating the market value / fair value of the assets and liabilities related to the analyzed company, using appropriate valuation approaches and methods;

7. INVESTMENT IN SUBSIDIARIES (continued)

- Summarizing the values of component assets and deducting debts to obtain the value of the company's equity.

For Rompetrol Logistics SRL adjustments were applied to tangible fixed assets (which were revalued at fair value separately) and financial assets represented by investments in other subsidiaries of the Company (which were revalued separately).

Reconciliation of total unrealised gains or losses recognized in profit or loss

As at 1 January 2021 (restated)	**2,078,051,547**
Addition	3,304
Total unrealised gains or losses for the period recognised in profit or loss	554,700,743
As at 1 January 2022	**2,632,755,594**
Total unrealised gains or losses for the period recognised in profit or loss	538,212,963
As at 31 December 2022	**3,170,968,557**

Total unrealized gains for the period recognized in profit or loss in amount of 538,212,963 refers mainly to fair value gains related to the Company's investment in Rompetrol Downstream SRL, in amount of RON 479 million, Rompetrol Petrochemicals SRL in amount of RON 29 million and Rompetrol Logistics SRL in amount of RON 30.2 million. The unrealized gains recognized in profit or loss related to the Company's investment in Rompetrol Downstream are generated by the increased gross profit margins according to the approved business plans, while unrealized gains recognized in profit or loss related to the investments in Rompetrol Logistics SRL is generated by increased profit margins of Rompetrol Gas SRL considering the estimated increased volumes to be sold. The unrealized gains for the period recognized in profit or loss in amount of RON 29 million related to the investment in Rompetrol Petrochemicals SRL is generated by the participations held in other group companies, which were evalued using income approach.

Considering that the Company has no control over the dividends policy of its subsidiaries, the fact that no dividends are expected to be received in the foreseeable future from subsidiaries and that fact that it is not able to control the timing of the reversal of temporary differences associated with investments in subsidiaries, no deferred tax liability was recognized.

8. INVENTORIES, NET

	31 December 2022	31 December 2021
Crude oil and other feedstock materials (at lower of cost and net realisable value)	693,636,165	551,804,997
Finished products (at lower of cost and net realisable value)	328,380,857	273,657,518
Work in progress (at cost)	156,235,749	149,160,835
Spare parts (at cost less inventories write-down)	15,821,004	18,684,854
Other consumables (at cost less inventories write-down)	24,684,177	21,549,313
Merchandises (at cost less inventories write-down)	153,826	117,820
Other inventories (at cost less inventories write-down)	7,475,251	5,553,197
Total	**1,226,387,029**	**1,020,528,534**

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

8. INVENTORIES, NET (continued)

The movement of the provision for inventories in 2022 and 2021 is presented below:

	31 December 2022	31 December 2021
Reserve at the beginning of the year	**(79,792,287)**	**(59,247,545)**
Accrued provision	(159,230,902)	(41,241,004)
Reversal provision inventories reserve	80,280,528	20,696,262
Reserve at the end of the period	**(158,742,661)**	**(79,792,287)**

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

9. RECEIVABLES AND PREPAYMENTS, NET

	31 December 2022	31 December 2021
Trade receivables	1,041,294,686	1,283,466,008
Advances to suppliers	97,978,601	169,343,020
Sundry debtors	54,625,814	114,603,302
VAT to be recovered	23,542,812	(3,691,652)
Other receivables	504,029,942	378,093,509
Reserve for bad and doubtful debts	(44,755,759)	(56,472,983)
Total	**1,676,716,096**	**1,885,341,204**

Included in Sundry debtors in 2022 is an amount of RON 25.1 million (2021: RON 25.4 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2011 - 2015 period; the amount is fully provided as at December 31, 2022. The fiscal provision recognized in 2022 is in amount of RON 11.5 million, and the opening balance of RON 13.6 million was reclassified between "Provision for sundry debtors and other receivables" to "Fiscal provision" under "Other provisions" category, the amounts provided being in relation with a tax inspection for which a legal challenge is in place (see Note 28).

Another amount included in Sundry debtors refers to RON 23.4 million in respect of Omniasig Vienna Insurance for insurance claim following the 2nd of July 2021 incident and an additional RON 3.7 million (2021: RON 8.46 million) for payment made by Rompetrol Rafinare SA to Navodari City Hall following the fiscal audit on local taxes (in respect of revaluation of buildings). The inspection team considered that for year 2012, certain buildings were not revalued within three years of the previous revaluation and applied a higher local tax rate of 10% for the buildings, and as a consequence assessed an additional tax on buildings and related penalties in total amount of RON 20.4 million, out of which the principal is RON 11.2 million and the penalties and accessories are RON 9.2 million (calculated until the date of the report).

The company challenged the said decision and in July 2021 the Supreme Court ruled in favour of the Company and found the City-hall liable to pay back to the Company the amount of RON 13.7 million.

Rompetrol Rafinare SA already enforced part of the sum by various set-off operations with Navodari City Hall in amount of RON 10 million from a total of RON 13.7 million.

9. RECEIVABLES AND PREPAYMENTS, NET (continued)

On 28 February 2011, Rompetrol Rafinare SA won the court case against The Romanian Government and The Ministry of Environment which required the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2,577,938 CO2 emission certificates for the entire period 2008 - 2012 (Decision 69/CA/2011). On October 30, 2012, the Supreme Court confirmed this resolution. In June 2020 the court admitted the Company' claim (the countervalue of the said 2.5 million CO2 certificates in amount of EUR 36 million). During December 2020 – May 2022 the Romanian Government and Ministry of Environment paid the entire amount as follows RON 30 million in 2020, RON 48.2 million in 2021 and RON 78.9 million in 2022.

In 2022, out of the total amount of RON 98 million (2021: RON 169 million) representing advances to suppliers, RON 98 million (2021: RON 161 million) are in respect of other raw materials, utilities, investment projects and CO2 certificates acquisition.

Out of the total balance for other receivables of RON 504 million (2021: RON 378.1 million), an amount of RON 392 million (2021: RON 287.5 million) relates to cash pooling receivables. Also, in other receivables an amount of RON 68.3 million (2021: RON 64.7 million) refers to excise receivables.

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

	31 December 2022	31 December 2021
Sundry debtors	54,625,814	114,603,302
Other receivables	504,029,942	378,093,509
Provision for sundry debtors and other receivables	(1,220,335)	(14,874,573)

Out of the total amount of other receivables and sundry debtors of RON 558.7 million (2021: RON 492.7 million) an amount of RON 1.2 million (2021: RON 14.9 million) is provisioned.

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

	31 December 2022	31 December 2021
Balance at the beginning of the year	**(56,472,983)**	**(58,694,122)**
Charge for the year	(2,264,451)	(445,900)
Utilized	330,279	2,666,689
Reclassification between balance sheet items	13,654,238	-
Exchange rate differences	(2,841)	349
Balance at the end of the period	**(44,755,759)**	**(56,472,983)**

9. RECEIVABLES AND PREPAYMENTS, NET (continued)

As at 31 December 2022 and 31 December 2021, the aging analysis of trade receivables and the respective balance of expected credit loss is as follows:

		Trade receivables					
		Days past due					
31 December 2022	**Total**	**Current**	**1 - 30 days**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**> 120 days**
Expected credit loss rate	**3.65%**	**0.00%**	**0.00%**	**2.26%**	**0.17%**	**12.61%**	**93.72%**
Estimated total gross carrying amount at default	**1,041,277,480**	889,797,851	49,055,808	45,701,053	17,076,536	275,501	39,370,731
Expected credit loss	**37,995,281**	-	-	1,033,383	29,246	34,739	36,897,913

		Trade receivables					
		Days past due					
31 December 2021	**Total**	**Current**	**1 - 30 days**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**>120 days**
Expected credit loss rate	**2.81%**	**0.00%**	**0.00%**	**6.89%**	**19.99%**	**30.00%**	**91.86%**
Estimated total gross carrying amount at default	**1,283,446,856**	1,186,711,271	57,135,916	268,201	122,279	5,471	39,203,717
Expected credit loss	**36,058,356**	-	-	18,473	24,440	1,641	36,013,801

			Past due but not impaired				
	Total	**Neither past due not impaired**	**1 – 30 days**	**30 – 60 days**	**60 – 90 days**	**90 - 120 days**	**>120 days**
31 December 2022	**1,003,282,199**	889,797,851	49,055,808	44,667,670	17,047,290	240,762	2,472,818
31 December 2021	**1,247,388,501**	1,186,711,271	57,135,916	249,728	97,839	3,830	3,189,915

At 31 December 2022, the trade receivables at the initial value of RON 38.00 million (2021: RON 36.06 milion) have been considered uncertain and provisioned.

The movement of the receivable provision is to be found below:

	Collectively impaired
At 1January 2021	**(38,279,495)**
Value adjustments for impairment of receivables	(445,900)
Reversed provisions	2,666,689
Exchange rate difference	349
At 31 December 2021	**(36,058,356)**
Value adjustments for impairment of receivables	(2,264,363)
Reversed provisions	330,279
Exchange rate difference	(2,841)
At 31 December 2022	**(37,995,282)**

10. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash at bank	22,597,466	87,439,223
Cash on hand	3,585	4,136
Transitory amounts	5,100	6,535
Other cash equivalents	637,339	148,194
Total	**23,243,490**	**87,598,088**

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

11. EQUITY

11.1 SHARE CAPITAL

As at 31 December 2022 and 31 December 2021 the share capital consists in 26,559,205,726 ordinary shares, authorized, wholly issued and paid up, with a nominal value of RON 0.1 per each share.

The shareholder structure at 31 December 2022 and 31 December 2021:

Shareholders	Percent held (%)	Statutory amounts in [RON]
KMG International N.V	48.11%	1,277,857,773
The Romanian State represented by The Ministry of Energy	44.70%	1,187,087,758
Rompetrol Financial Group SRL	6.47%	171,851,155
Rompetrol Well Services SA	0.05%	1,323,486
Rompetrol Rafinare SA	0.01%	369,858
Others (not State or KMGI Group)	0.66%	17,430,542
Total	**100%**	**2,655,920,573**

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

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

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

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

The Extraordinary General Meeting of Shareholders („EGMS") of Rompetrol Rafinare held on August 06, 2021 approved the following decision for share capital reduction: The Company's share capital will be reduced by 1,755,000,000 RON from 4,410,920,572.60 RON to 2,655,920,572.60 RON by reducing the number of shares by 17,550,000,000 shares, respectively from 44,109,205,726 shares to 26,559,205,726 shares according to the art. 207 (1) (a) of the Companies Law no. 31/1990. The decision was published on September 03, 2021 into the Official Gazette of Romania and it took effect on 5 November 2021.

11. EQUITY (continued)

11.2 SHARE PREMIUM

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

11.3 REVALUATION RESERVES

At 31 December 2022, the Revaluation reserves balance is in amount of RON 1,205 million (2021: RON 1,362 million) presented in net off the deferred tax recognized on the revaluation surplus and net off the transfer to retained earnings of the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the assets.

The revaluation surplus included in the revaluation reserves is realized by transferring it to retained earnings as the use of the asset or upon disposal of the asset, unless a transfer has not already been made during utilization period of the revaluated asset.

Thus, as of 31 December 2022 the realized revaluation reserve is in 2022 in amount of RON 187.1 million, for which a reduction of previously recognized deferred tax liability in amount of RON 29.9 million was recorded.

11.4 OTHER RESERVES

Hybrid Loan

The "Other reserves" item includes the equity component of the hybrid loan as measured at its initial recognition in amount of RON 3,449 million (USD 1,022 million).

In 2012, USD 800 million of the total outstanding balance of the loan payable to KMG International NV was converted into an unsecured hybrid loan, repayable after 51 years. During 2013, an additional USD 150 million were converted, the hybrid loan amounting to USD 950 million. The loan is unsecured, subordinated to any present and future liability of the company. At maturity the loan can be repaid in cash or fully or partially converted into shares at the option of the issuer. The interest rate for this loan is 15% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively (as per the addendum to the hybrid loan contract concluded in May 2021):

- the company records net profit after tax for that year;
- the company will distribute dividends.

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

In 2017, an additional USD 72.2 million were converted to hybrid loan by conversion of a debt held in front of KMG International NV. The additional loan is unsecured, repayable after 51 years and subordinated to any present and future liability of the companies. At maturity the loan can be repaid in cash or fully or partially converted into shares. The interest rate for this loan is 2% of the aggregate amount of the company's annual EBIT (operational profit), and it is computed and becomes payable if the below conditions are met cumulatively (as per the addendum to the hybrid loan contract concluded in May 2021):

- the company records net profit after tax for that year;
- the company will distribute dividends.

The addendums have retroactive effects.

During 2022 unrealized derivative gains was recorded as gains / losses related to retirement benefits were booked in Other Reserves as follows:

11. EQUITY (CONTINUED)

11.5OTHER RESERVES

	2022	2021
Actuarial gain / (losses) related to retirement benefits	4,887,837	15,385,923
Gains / (losses) related to derivative financial instruments	(112,915,474)	103,187,894
Total	**(108,027,637)**	**118,573,817**

12. TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
Trade payables	3,492,866,976	4,468,862,837
VAT payable	374,084,032	407,523,956
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,180)	(1,180)
Employees and social obligations	45,277,389	17,545,370
Other liabilities	1,708,379,030	1,522,223,748
Total	**5,648,166,879**	**6,443,715,363**

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

The cash pooling debt amounts to RON 1,693.27 million (2021: RON 1,497.59 million) and is recognised in "Other liabilities".

13. CONTRACT LIABILITIES

	31 December 2022	31 December 2021
Short-term advances from other customers	98,232,193	132,163,640
Total short-term advances	**98,232,193**	**132,163,640**

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

14. SHORT-TERM BORROWINGS

Short-term loan from banks

	31 December 2022	31 December 2021
Banca Transilvania Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 29, 2023; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m2; assignment of rights from insurance compensation.	99,581,428	119,409,488
Banca Transilvania Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on July 29, 2023; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS =EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.	68,103,551 -	65,788,140 -
Interest due	68,909	99,346
	167,753,888	**185,296,974**
Syndicated loan – through Unicredit Bank as payer agent (current portion)	115,865,000	-
TOTAL	**283,618,888**	**185,296,974**

At the level of KMG International NV, loan covenants are tested every 6 months, at half-year and at year end. For 2022, the loan covenants are respected. For 2023, there are expected some changes in the loan structure for which discussions are in progress. There are not expected any non compliance on loan covenants even if these will be changed, based on the new structure of the loans.

15. LONG-TERM BORROWINGS

Long-term loan from banks

	31 December 2022	31 December 2021
Syndicated loan – through Unicredit Bank as payer agent Up to USD 435 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompetrol Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consists of three parts: (I) USD 240 million committed line and the maturity date is April 23, 2023, (II) USD 75 million revolving facility with maturity April 23, 2023 and (III) USD 90 million uncommitted with the maturity date for BCR, ING Bank and Raiffeisen Bank is April 23, 2023. The facility is secured by: inventories, receivables, gas stations, depots and current accounts.	**-**	**418,023,119**

At the level of KMG International NV, loan covenants are tested every 6 months, at half-year and at year end. For 2022, the loan covenants are respected. For 2023, there are expected some changes in the loan structure for which discussions are in progress. There are not expected any non compliance on loan covenants even if these will be changed, based on the new structure of the loans.

The loans are secured with pledges on inventories of RON 967 million (2021: RON 896 million) and trade receivables of RON 282.7 million (2021: RON 193.6 million).

The KMGI Group is currently in negotiation for refinancing of the syndicated working capital loan and increase it to a minimum USD 500 million and maximum USD 600 million. Currently there are indicatives offers received for the maximum amount, the process for the committed offers is ongoing being planned to be finalized until the beginning of April when the signing is expected to take place.

15. LONG-TERM BORROWINGS (continued)

The movement of loans in 2022 is presented below:

	At 1 January 2022	Drawings	Repayments	Interest accrual	Reclass between short-term and long-term	Exchange rate impact	At 31 December 2022
Long-term borrowings from banks	418,023,119	210,130,679	-	-	(628,153,798)	-	-
Short-term borrowings from banks	185,197,628	749,895,679	(1,365,075,498)	-	628,153,798	85,378,373	283,549,979
Interest Short-term borrowings from banks	99,346	-	(33,753,824)	33,723,324	-	64	68,909
Total	**603,320,093**	**960,026,357**	**(1,398,829,322)**	**33,723,324**	**-**	**85,378,437**	**283,618,888**

The movement of loans in 2021 is presented below:

	At 1 January 2021	Reclass from short-term to long-term	Repayments	Withdrawls	Exchange rate impact	At 31 December 2021
Long-term borrowings from banks	570,759,324	89,986,686	(520,137,509)	201,630,000	75,784,618	418,023,119
Short-term borrowings from banks	209,487,898	(89,986,686)	(26,539,161)	92,235,577	-	185,197,628
Short-term borrowings from shareholders and related parties	42,260,547	-	(34,452,042)	-	(7,808,504)	-
Total	**822,507,769**	**-**	**(581,128,713)**	**293,865,577**	**67,976,113**	**603,220,747**

	At 1 January 2021	Reclass	Payments	Accrued	Exchange rate impact	At 31 December 2021
Interest long-term borrowings from banks	-	(99,346)	(20,458,923)	20,557,808	461	-
Interest short-term borrowings from banks	416,143	99,346	(3,298,259)	2,882,116	-	99,346
Interest short-term borrowings from shareholders and related parties	6,688,484	-	(7,253,019)	153,623	410,912	-
Total	**7,104,627**	**-**	**(31,010,200)**	**23,593,547**	**411,373**	**99,346**

16. OBLIGATION UNDER LEASE AGREEMENTS

	2022	2021
Opening balance at 01 January	**58,761,696**	**59,524,287**
Additions	331,800	879,934
Re-measurement	1,336,675	103,665
Payments	(4,759,636)	(4,669,370)
Interest accrued	1,866,193	1,916,639
Exchange rate impact	24,099	1,006,539
As at 31 December	**57,560,826**	**58,761,694**
Non-current	54,700,998	56,244,055
Current	2,859,828	2,517,639

As of 31 December 2022 there are no sale and leaseback agreements and no lease agreements signed and not commenced yet.

The amount related to re-measurement of RON 1.3 million (2021: RON 0.1 million) refers to extension of lease agreements for cars.

17. PROVISIONS

The movement of the provisions is presented below:

	As at 1 January 2022	Other comprehensive income	Arising during the year	Utilized amounts	Unwinding of discount	Reclassification between balance sheet items	As at 31 December 2022
Provision for litigations	1,705,380	-	1,894,620	-	-	-	3,600,000
Retirement benefit provision	42,262,503	(4,887,837)	3,631,445	-	-	-	41,006,111
Fiscal provision	-	-	11,487,082	-	-	13,654,238	25,141,320
Environmental provision	312,609,486	-	193,498,196	(52,418,795)	(5,109,913)	-	448,578,974
Total	**356,577,370**	**(4,887,837)**	**210,511,343**	**(52,418,795)**	**(5,109,913)**	**13,654,238**	**518,326,405**

	As at 1 January 2021	Other comprehensive income	Arising during the year	Utilized	Unwinding of discount	As at December 31 2021
Provision for litigations	1,705,380	-	-		-	1,705,380
Retirement benefit provision	55,555,814	(15,385,923)	2,092,612		-	42,262,503
Environmental provision	239,773,706	-	113,117,300	(18,870,254)	(21,411,266)	312,609,486
Total	**297,034,901**	**(15,385,923)**	**115,209,912**	**(18,870,254)**	**(21,411,266)**	**356,577,370**

17. PROVISIONS (continued)

Environmental provision

Vega lagoons

As of 31 December 2022, the Company recognized an environmental provision of RON 426.9 million (2021: RON 290.9 million) based on reassessment of the site restoration provision. Reassessment was performed considering the following change in assumptions as compared with previous period:

- obligation to set up the closure and post-closure monitoring fund of the hazardous waste landfill, obligation established in the Company responsibility by the competent environmental authority through revised Environmental Integrated Permit issued for Vega refinery; the amount of the previously mentioned fund will be set up based on the closing project, developed pursuant to OG no. 2/2021, by an accredited environmental studies developer, document that will be approved by the Environment Fund Administration;
- updated prices for rehabilitation works related to lagoons 19 - 20, 7 - 12, 13 - 15 and remaining works for the rehabilitation of lagoons 16. The updated prices use as reference basis the prices included in the agreements concluded for the rehabilitation of lagoons already cleaned, the prices increased as a result of the offers received, formulated considering the evolution of prices for additives and fuel, also the increase of the minimum gross salary;
- rehabilitation works performed during the year;
- updated variable indicators over the project timeline (i.e. exchange rate, discount rate, inflation rate) as following: exchange rate changed from 4.3707 RON/USD to 4.6346 RON/USD, increased discount rate from 6.5% used for the provision assessment as of 31 December 2021 to 7.17% as of 31 December 2022 and updated inflation rate prevision as per Romanian National Institute of Statistics
- extended timeline for the rehabilitation plan until 30 June 2025, which is under advance discussions with the environmental authorities.

The results of the reassessment lead to a net increase of provision by RON 136.0 million (2021: RON 51.1 million), being mainly generated by the additional costs of RON 193.5 million, impacted by the unwinding of discount effect of RON 5.1 million (2021: RON 21.4 million) and the costs incurred of RON 52.4 million (2021: RON 18.9 million) related to the works performed during 2022.

We analysed all the implication of the ongoing claim regarding lagoon 18 cleaning as described in Note 28 and determined that there is no impact on the assumptions considered for the provision computation as described above.

Vadu cassettes

During 2021, the Company has carried out the due diligence procedures in accordance with Law 74/2019 in relation to the storage area of the biological waste resulted from IAZ no.1 ("Vadu cassettes"). The process is ongoing and performed in accordance with the requirements of the competent environmental authorities ("EPA Constanta").

During 2021, a detailed investigation report was provided to the environmental authorities. The feasibility study was also contracted and completed, the next steps for remedial actions will be communicated by the competent authority. Based on the feasibility study and correspondence with environmental authorities, Management concluded that the Company has a constructive obligation for the rehabilitation of the cassettes, thus an assessment of the obligation was performed as of 31 December 2021. In this respect, a provision of RON 21.7 million was recorded as of 31 December 2021. As at 31 December 2022, considering the information available and discussions with environmental authorities, Management assessed the provision recorded as of 31 December 2021 as being appropriate.

17. PROVISIONS (continued)

Retirement obligations provision

Under the collective labor agreement in force, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with the entity at the date of their retirement. The level of benefits provided depends on the member's length of service, the employees is entitled to a fix amount per each year of service. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the entity; and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the balance sheet date. For the computation an actuarial valuation is involved making various assumptions that may differ from actual developments in the future. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 8.80% in 2022 (2021: 5.20%), with an expected rate of long-term salary increase of 4.40% in 2022 (2.90% in 2021). Also, attrition rate was considered as average number of employees leaving the company in the last 3 years divided by opening number of staff. Retirement age for men 65 years old and for women 63 years old.

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

	31 December 2022	31 December 2021
Interest on obligation	2,160,524	1,568,514
Service cost	3,806,171	3,178,562
Benefits paid	(2,335,250)	(2,654,463)
Total	**3,631,445**	**2,092,612**

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

	31 December 2022	31 December 2021
Opening balance	**42,262,503**	**55,555,814**
Interest on obligation	2,160,524	1,568,514
Service cost	3,806,171	3,178,562
Curtailment due to restructuration/retirement	(2,335,250)	(2,654,463)
Changes in assumptions (tax rate, salary increase, turnover)	(4,887,837)	(15,385,923)
Closing balance	**41,006,111**	**42,262,503**

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

17. PROVISIONS (continued)

A quantitative sensitivity analysis for significant assumptions as of December, is shown below:

The other variables (exchange rate, mortality rate and turnover) had no significant impact in 2022.

	Impact on defined benefit obligation 2022	Impact on defined benefit obligation 2021
	RON million	RON million
Discount rate assumptions:		
1% increase	(3.44)	(4.14)
1% decrease	3.88	4.78

	2022	2021
	RON million	RON million
Salary sensitivity assumption:		
1% increase	4.13	4.89
1% decrease	(3.69)	(4.30)

	2022	2021
	RON million	RON million
Longevity sensitivity assumption:		
1% increase	0.32	0.33

Fiscal provision

Fiscal provision recorded as of 31 December 2022 in amount of RON 25.1 million refers to the provision recorded in relation to the litigation with the National Agency for Tax Administration ("ANAF") (Note 28).

18. NET REVENUES FROM CONTRACT WITH CUSTOMERS

	January - December 2022		TOTAL	January - December 2021		TOTAL
	Refining	**Petrochemicals**	**2022**	**Refining**	**Petrochemicals**	**2021**
Gross revenues from the sale of finished oil products	26,323,918,807	938,765,579	27,262,684,386	15,434,498,420	769,840,173	16,204,338,594
Revenues from petroleum products trading	-	-	-	265,773,782	-	265,773,782
Revenues from petrochemicals trading	-	1,885,128	1,885,128	-	3,429,864	3,429,864
Revenues from other merchandise sales	41,930,380	-	41,930,380	1,585,151	-	1,585,151
Revenues from utilities sold	17,256,728	-	17,256,728	12,106,975	-	12,106,975
Revenues from the sale other products	492,997	-	492,997	894,462	-	894,462
Revenues from other services	17,272,901	-	17,272,901	15,780,075	-	15,780,075
Gross Revenues	**26,400,871,815**	**940,650,706**	**27,341,522,521**	**15,730,638,866**	**773,270,037**	**16,503,908,903**
Less sales taxes	(4,314,744,915)	-	(4,314,744,915)	(4,354,291,436)	-	(4,354,291,436)
Total	**22,086,126,900**	**940,650,706**	**23,026,777,606**	**11,376,347,430**	**773,270,037**	**12,149,617,467**

The increase of revenues compared with 2021 was triggered by the increase with 43% 2022 vs 2021 in international market quotations of crude oil (Dated Brent) and refined products (Gasoline increased by 47% and Diesel increased by 79% in 2022 vs 2021), driven by OPEC+ decisions which triggered an increase in demand/crude oil prices.

There is no significant time difference between payment and transfer of control over goods and/or services.

19. COST OF SALES

	January - December 2022	January - December 2021
Crude oil and other raw materials	18,050,794,740	10,605,169,921
Consumables and other materials	74,474,521	49,491,900
Utilities	1,003,551,251	629,366,701
Staff costs	148,799,445	96,186,768
Transportation	235,611	100,429
Maintenance	139,710,046	92,269,313
Insurance	9,908,808	5,773,582
Environmental expenses	109,903,913	6,022,823
Other	65,612,853	51,864,688
Cash production cost	**19,602,991,187**	**11,536,246,125**
Depreciation and amortization	429,403,301	279,312,943
Production costs	**20,032,394,489**	**11,815,559,068**
Less: Change in inventories	(124,813,082)	(261,831,095)
Less: Own production of property, plant & equipment	(14,304,059)	(11,534,600)
Cost of petroleum products trading	-	274,329,674
Cost of petrochemicals trading	1,828,708	2,998,823
Cost of other merchandise sales	43,874,568	1,519,540
Cost of utilities sold	15,775,553	13,105,278
Realised (gains)/losses on derivatives	1,114,463,981	128,773,774
Total	**21,069,220,156**	**11,962,920,462**

Negative result of derivatives transactions recorded during 2022 is due to hedging for around Base Operating Stocks (BOS), done on the ICE Exchange Market using Futures contracts to protect the stock's value against decreasing of prices and because of Refinery margins and Urals-Dated Brent differential hedging using Over-the-Counter (OTC) swap instruments.

During 2022 the average Futures quantity for hedging around BOS was 78 KT (the hedge was opened only during 1st Jan – 8th Mar), lower against 2021 average quantity of 144 KT. When prices decrease the stocks depreciate, but the hedging instruments will have positive effect, offsetting the physical loss. But in 2022, Dated Brent increased by 74% from USD 79 (1st Jan) to USD 137.6 (8th Mar) per bbl., generating a loss on hedging instruments. Thus, the coverage during the market growth had a negative result of (USD 31.9 million) out of which (USD 35.2 million) recorded into P&L. Compared to 2021, a year of demand recovery at pre-pandemic (2019) levels, mainly due to the COVID vaccination program that led to the relaxation of restrictions around the world. 2022 has been characterized as a year of high geopolitical crisis due to Russian invasion over Ukraine on 24th of Feb. This led to record prices for crude oil, gas, and electricity.

19. COST OF SALES (continued)

Also, during Oct'21 – Feb'22 Rompetrol Rafinare concluded swap transactions to hedge the difference between Urals - Dated Brent. The refinery, processing a higher percentage of Urals (approx. 70%), tries to set a level of the differential as negative as possible, which means a cheaper Urals than Dated Brent. With the swap instruments, the Refinery margin was set at 28 USD/MT compared to the budget of 22.64 USD/MT for 860KT (15% of crude processed in 2022) the Urals-Dated Brent differential was set at -1.95 USD / bbl. compared to the budget of -0.82 USD / bbl. for 14.15 million barrels (50% of Urals processed in 2022). But during the year, the Refinery margins increased to record levels of 112 USD/MT due to very strong oil products cracks coming from tight supply and increasing mobility in European countries, resulting in losses of USD -72.3 million from swap instruments, collapsed to un-precedented level of -24.4 USD/bbl., triggered by the drop in demand for Russian crude oil because of the war, resulting in losses of USD -134.2 million from swap instruments. The volumes remained unhedged (85% refinery margins and 50% Urals differential), helped the Company to benefit on the physical side from higher margins and a cheaper Urals compared to Dated Brent. This impact is recorded as FV through PL.

Rompetrol Rafinare has the obligation to comply with the CO2 emission rights quota. Thus, Refinery CO2 emissions are offset with EUA certificates. The actual emissions have exceeded the certificates and in this respect the difference is accrued by Rompetrol Rafinare as environmental expenses, the amount recognized for 2022 is RON 114 million.

In 2022, in other expenses are included costs for: inspections and quality control in amount of RON 32.4 million (2021: RON 20.9 million), IT and communications in amount of RON 12.4 million (2021: RON 11.2 million), local taxes in amount of RON 1.4 million (2021: RON 1.4 million), security, fire protection and other services in amount of RON 19.4 million (2021: RON 18.4 million).

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

	January – December 2022	January – December 2021
Staff costs	51,898,874	48,833,399
Utilities	24,493,609	43,930,141
Transportation	61,676,730	42,534,576
Professional and consulting fees	59,911,152	37,295,518
Consumables	1,706,978	2,022,789
Marketing	137,292	5,158
Taxes	4,298,662	4,262,593
Communications	30,111	40,221
Insurance	3,032,747	2,880,370
IT related expenditures	6,210,102	7,082,871
Environmental expenses	71,131,191	25,939,002
Maintenance	19,968,940	23,361,005
Fees and penalties	36,106,591	18,666,698
Other expenses	37,499,359	40,784,453
Costs before depreciation	**378,102,339**	**297,638,792**
Depreciation and amortisation	68,719,369	105,694,608
Total	**446,821,707**	**403,333,400**

In 2022 in Other expenses are included costs for: storage in amount of RON 4.4 million, outsourced services in amount of RON 13.9 million, inspections and quality control in amount of RON 2.8 million, security, fire protection, cleaning & sanitation in amount of RON 8.3 million, mandate services in amount of RON 1.2 million and other services in amount of RON 6.9 million.

20. SELLING, GENERAL AND ADMINISTRATIVE COSTS, INCLUDING LOGISTIC COSTS (continued)

The auditor's fees were recognised in "Professional and consulting fees". The auditors' fees related to the audit of the standalone and consolidated financial statements as of 31 December 2022 are EUR 160,224 (in 2021: EUR 131,725).

21. OTHER OPERATING (INCOME) / EXPENSES, NET

	January - December 2022	January - December 2021
Loss / (gain) from impairment of property, plant and equipment, net	37,500,431	(45,731)
Provision for receivables, net and write-off, net	1,934,172	(2,220,789)
Provision for inventories, net	78,950,374	20,544,743
Other provisions, net	113,226,419	51,424,513
Loss from revaluation of property, plant and equipment	-	52,168,022
Other, net	(47,003,813)	(9,477,232)
Total	**184,607,583**	**112,393,525**

In respect of tangible assets provision, in 2022, an additional RON 37.5 million were recorded. Mainly for the assets currently not in use in amount of RON 34.8 million for Petromidia Refinery (of which HDPE unit amounts RON 23.5 million and the Aromatic complex amounts RON 6.6 million) and RON 2.7 million for Vega Refinery.

Other, net in amount of RON 47 million refer to revenue from claim to be received from the insurance company in relation to Petromidia incident occurred in 2 July 2021 (2021: RON 34.5 million partially offset by RON 21.8 million representing reversal of accrual recorded for CO2 allowances related to 2020 quota).

In 2021, following the voluntary change of accounting policy for equipment and land, a revaluation exercise was conducted for property, plant and equipment, including buildings previously measured at revalued amount. Considering this, a loss was recorded in amount RON 52.2 million, being related to items for which the revalued amount was lower than the carrying amount and no previous revaluation reserve recorded.

Other provisions, net in amount of RON 113.2 million mainly refers mainly to the additional environmental provision in respect of Vega lagoons in amount of RON 99.8 million (2021: 94.3 million), fiscal provision in amount of RON 11.49 million (2021: nill) and RON 1.89 million represents provision for litigation related to the technical incident occurred in Petromidia Refinery in August 2016 (Note 17, Note 28) .

22. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	January – December 2022	**January – December 2021**
Finance cost		
Losses related to financial investments recognised at fair value	823,121	3,969,333
Interest expense	47,639,706	48,098,321
Interest expense shareholders and related parties	165,592,402	66,013,999
Unwinding of discount – lease	1,866,194	1,916,640
Unwinding of discount - environmental provision	36,124,770	21,411,266
Other financial expense	131,229,346	62,915,787
	383,275,538	**204,325,347**
Finance income		
Gains related to financial investments recognised at fair value	(539,036,084)	(558,670,076)
Interest income	(32,473,062)	(9,728,920)
Other financial income	(10,865,577)	(2,944,154)
	(582,374,723)	**(571,343,150)**
Finance cost / (income), net	**(199,099,185)**	**(367,017,804)**
Unrealized net foreign exchange losses/(gains)	(1,635,876)	254,428,512
Realized net foreign exchange losses/(gains)	324,765,214	119,971,237
Foreign exchange (gain)/loss, net	**323,129,338**	**374,399,749**
Total	**124,030,153**	**7,381,945**

In 2022 out of the total of RON 169.2 million (2021: 86.2 million) representing other financial expenses an amount of approximately RON 122.9 million (2021: RON 61.7 million) represents interest and other financial expenses owed to KMG Trading for financing activities.

In 2022 a gain related to financial investments recognised at fair value in amount of RON 539 million (2021: RON 558.7 million) was recorded and at the same time a loss related to financial investments of RON 0.8 mill was recorded as a result of the fair value assessment (Note 7)

23. INCOME TAX

The current income tax rate in 2022 was 16%, the same as in 2021.

	31 December 2022 RON	**31 December 2021 RON**
Tax expense comprises:		
Current expense with income tax, out of which	**577,634,789**	**-**
Current income tax	-	-
Solidarity contribution	*577,634,789*	-
Deferred tax expense / (income)	**(41,813,941)**	**114,576,249**
Total tax expense / (income)	**535,820,848**	**114,576,249**

23. INCOME TAX (continued)

As of 31 December 2022, the Company had the following total unused fiscal losses:

Entity	Fiscal loss 2022 Million RON	Fiscal loss 2021* Million RON
Rompetrol Rafinare SA	**(712.3)**	**(1,675.0)**

**In 2022 the Company submitted a rectifying Corporate income tax statement for 2021, adjusting the fiscal result for 2021 by RON 13.2 million increase, representing the percentage of legal reserve related to the share capital decrease, recognized as an item equivalent to revenue for corporate income tax purposes.*

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

Entity Rompetrol Rafinare SA		Fiscal loss Million	Fiscal loss Expires in
	2020	(232.50)	2027
	2021	(479.79)	2028
		(712.29)	

Reconciliation of comprehensive income with tax result

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

	31 December 2022 RON	31 December 2021 RON
Result before tax	**666,277,159**	**(450,988,114)**
Tax at prevailing tax rate (16%)	-	-
Effect of losses carried forward	(1,675,015,284)	(1,195,223,077)
Effect of statutory items non deductible / (not taxable) for tax purposes	296,447,489	(28,804,092)
Non-deductible expenses	*1,949,299,106*	930,108,195
Not - taxable income	*(672,418,216)*	(585,880,340)
Other items equivalent to expense/(revenues)	*(545,482,776)*	13,241,594
Non-fiscal depreciation	*(372,755,027)*	(386,273,542)
Legal Reserve	*(62,195,597)*	-
Deferred tax income / (expense)	41,813,941	(114,576,249)
Solidarity contribution	(577,634,789)	-
Income tax expense recognized in profit or loss	**(535,820,848)**	**(114,576,249)**

23. INCOME TAX (continued)

Considering that Rompetrol Rafinare is subject to the solidarity contribution regulated by Government Emergency Ordinance 186, issued December 28th, 2022 ("GEO 186"), a measure grounded on the provisions of Council Regulation (EU) 2022/1854, Rompetrol Rafinare estimated a contribution of RON 578 million, taking in account the present norms of the "GEO 186". The actual level of the contribution is to be determined by June 25th, 2023, the legal deadline for declaration and payment of the contribution, in accordance with the provisions of the law which will approve the GEO 186.

In 2022 the following income was considered non-taxable when calculating tax loss:

- Tax provisions (income from reversal of provisions for which no deduction was allowed) in amount of RON 91.6 million;
- Non-taxable income from revaluations (RON 539 million).
- Revenues from deferred income tax (RON 41.8 million)

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

- Expenses with accounting depreciation, amounting RON 494.6 million;
- Expense with solidarity contribution, amounting RON 577.6 million;
- Expenses with provisions amounting RON 359.3 million;
- Interests amounting RON 505.1 million;
- Expenses with non-deductible penalties in the amount of 10 million RON;
- Other non-deductible expenses amounting to RON 2.7 million.

The deferred tax assets and liabilities

DEFERRED TAX

	Balance at 1 January 2022	Charged to Profit & loss	Charged to Equity	Balance at 31 December 2022
Temporary differences				
Asset/Liability				
Property, plant and equipment	2,102,474,773	-	(187,099,223)	1,915,375,550
Provisions	(312,609,487)	(261,337,130)	-	(573,946,617)
Total temporary differences (Asset)/Liability	**1,789,865,286**	**(261,337,130)**	**(187,099,223)**	**1,341,428,933**
Property, plant and equipment	336,395,964	-	(29,935,876)	306,460,088
Provisions	(50,017,518)	(41,813,941)	-	(91,831,459)
Differed tax (assets)/liability recognised	**286,378,446**	**(41,813,941)**	**(29,935,876)**	**214,628,629**

As of 31 December 2022, the Company recognized deferred tax asset for the provision related to Vega environmental project. The reassessment of the provision as of 31 December 2022 (Note 17), lead to an increase of RON 41.8 million (2021: RON 11.65 million) in the related deferred tax asset.

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

23. INCOME TAX (continued)

The recoverability for the deferred tax asset recognized by the Company depends on its ability to generate sufficient taxable income to utilize the carried forward tax losses available. Management considers that future taxable income will be generated for recovery of the available tax losses where it has recognized a corresponding deferred tax asset.

As of 31 December 2022 the Company reviewed the carrying amount of deferred tax assets and reduced it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax to be utilized.

As of 31 December 2022 the Company has made an assessment of unrecognized deferred tax assets and such items are related to deductible temporary differences generated by retirement benefits and inventories allowance (NRV assessment) amounting RON 32 million (2021: RON 19.4 million).

Contingencies related to taxation

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

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

24. OPERATING SEGMENT INFORMATION

A. Operating segments

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

2022 Income statement

	Refining	Petrochemicals	Unallocated amounts between the segments	Total
Net turnover	22,086,126,900	940,650,706	-	**23,026,777,606**
Cost of sales	(19,924,971,675)	(1,144,248,481)	-	**(21,069,220,156)**
Gross profit / (loss)	**2,161,155,225**	**(203,597,775)**	**-**	**1,957,557,450**
Selling, general and administrative expenses	(395,510,771)	(51,310,936)	-	**(446,821,707)**
Other operating revenues / expenses, net	(184,607,583)	-	-	**(184,607,583)**
Operating loss	**1,581,036,871**	**(254,908,711)**	**-**	**1,326,128,160**
Financial expenses	-	-	(383,275,538)	**(383,275,538)**
Financial revenues	-	-	582,374,723	**582,374,723**
Net foreign exchange gains / (losses)	-	-	(323,129,338)	**(323,129,338)**
Profit / (loss) before income tax	**1,581,036,871**	**(254,908,711)**	**(124,030,153)**	**1,202,098,007**
Income tax	-	-	(535,820,848)	(535,820,848)
Net (Loss)/Profit	**1,581,036,871**	**(254,908,711)**	**(659,851,001)**	**666,277,159**
out of which Depreciation and amortization	**(435,049,899)**	**(63,072,771)**	**-**	**(498,122,670)**

24. OPERATING SEGMENT INFORMATION (continued)

2021 Income statement

	Refining	Petrochemicals	Unallocated amounts between the segments	Total
Net turnover	11,376,347,430	773,270,037	-	**12,149,617,467**
Cost of sales	(11,314,396,884)	(648,523,578)	-	**(11,962,920,462)**
Gross loss	**61,950,546**	**124,746,459**	**-**	186,697,005
Selling, general and administrative expenses	(336,981,608)	(66,351,792)	-	**(403,333,400)**
Other operating revenues / expenses, net	(112,393,525)	-	-	**(112,393,525)**
Operating loss	**(387,424,588)**	**58,394,667**	**-**	**(329,029,920)**
Financial expenses	-	-	(204,325,347)	**(204,325,347)**
Financial revenues	-	-	571,343,150	**571,343,150**
Net foreign exchange gains / (losses)	-	-	(374,399,749)	**(374,399,749)**
Profit / (loss) before income tax	**(387,424,588)**	**58,394,667**	**(7,381,945)**	**(336,411,865)**
Deferred tax	-	-	(114,576,249)	(114,576,249)
Net (Loss)/Profit	**(387,424,588)**	**58,394,667**	**(121,958,194)**	**(450,988,114)**
out of which Depreciation and amortization	**(319,445,029)**	**(65,562,523)**	**-**	**(385,007,551)**

In 2022 turnover of the Company are included the clients KazMunayGas Trading AG and Rompetrol Downstream SRL, that generate more than 10% of the total sales, their value amounting to RON 14,537.9 million (2021: RON 8,313.7 million).

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

Since many of the Petromidia refinery facilities are used jointly by refining and the petrochemicals segment the balance sheet is analyzed by management at cumulated level for Refining and Petrochemicals segments. As a result, the balance sheet information for segments Refining and Petrochemicals are presented together.

B. Geographical segments

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

	31 December 2022	31 December 2021
Romania	14,886,917,877	8,385,131,240
Europe	7,905,910,352	3,632,696,381
Asia	231,855,485	127,847,298
America	2,093,892	3,942,548
Total	**23,026,777,606**	**12,149,617,467**

25. RELATED PARTIES

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

Name of the affiliated entity	Nature of the relation
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions SA	Company held by KMG International N.V
Rominserv SRL	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetrol Well Services SA	Company held by KMG International N.V
Rompetrol Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetrol Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal SRL	Company held by KMG International N.V
Rompetrol Financial Group SRL	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping SRL	Company held by KMG International N.V
Midia Green Energy SA (former Uzina Termoelectrica Midia SA)	Company held by KMG International N.V (KMG International group holds: 43.42%)
Global Security Sistem SA	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Global Security Systems Fire Services SRL	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Downstream SRL	Company affiliated to the Company
Rompetrol Petrochemicals SRL	Company affiliated to the Company
Rom Oil SA	Company affiliated to the Company
Rompetrol Logistics SRL	Company affiliated to the Company
Rompetrol Quality Control SRL	Company affiliated to the Company
Rompetrol Gas SRL	Company held by KMG International N.V
Rompetrol France SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KMG Rompetrol Services Center SRL	Company held by KMG International N.V
Rompetrol Renewables SRL (former Rompetrol Drilling SRL)	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Fondul de Investitii in Energie Kazah-Roman SA	Company held by KMG International N.V
KMG Rompetrol Development SRL	Company held by KMG International N.V

25. RELATED PARTIES (continued)

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

A. At 31 December 2022 and 31 December 2021, Rompetrol Rafinare had the following balances with the related parties:

	Receivables and other assets	
	31 December 2022	**31 December 2021**
KazMunayGas Trading AG	235,100,198	421,042,370
Rompetrol Downstream SRL	393,764,336	746,166,159
Rompetrol Petrochemicals SRL	481	7,903
KMG International N.V.	-	9,339,055
Rompetrol Gas SRL	50,798,926	3,148,828
Rompetrol Bulgaria JSC	1,014,345	6,751,967
Rominserv SRL	15,859,443	4,491,040
Rompetrol Quality Control SRL	191,532	230,409
Rompetrol Logistics SRL	1,780	37,584
Midia Marine Terminal SRL	1,024,824	939,811
Midia Green Energy SA (former Uzina Termoelectrica Midia SA)	274,985	4,683,854
KMG Rompetrol SRL	398,201,670	290,674,236
Global Security Systems SA	606,080	697,184
Rompetrol Energy SA	87,258,432	34,750,631
Byron Shipping Ltd.	2,806	3,644
Oilfield Exploration Business Solutions SA	2,980,529	3,005,223
Romoil SA	88,313	74,222
Rompetrol Financial Group SRL	11,207	11,089
KMG Rompetrol Services Center SRL	46,238	55,743
KMG Rompetrol Development SRL	-	197,539
Total	**1,187,226,127**	**1,526,308,491**

25. RELATED PARTIES (continued)

	Payables, loans and other liabilities	
	31 December 2022	**31 December 2021**
KazMunayGas Trading AG	2,684,890,824	3,853,944,850
Rompetrol Downstream SRL	37,960,211	48,951,426
Rompetrol Petrochemicals SRL	8,315,590	8,315,590
KMG International N.V	1,152,218	16,851,825
Rompetrol Gas SRL	2,879,235	2,955,168
Rompetrol Moldova ICS	14,729,346	16,476,350
Rominserv SRL	86,404,563	65,123,193
Rompetrol Quality Control SRL	13,528,786	14,811,620
Rompetrol Logistics SRL	-	16,295
Midia Marine Terminal SRL	19,293,936	44,441,494
Midia Green Energy SA (former Uzina Termoelectrica Midia SA)	415	17,018,694
KMG Rompetrol SRL- debt cash pooling	1,681,424,077	1,491,593,678
KMG Rompetrol SRL-interest cash pooling	11,847,300	5,996,779
KMG Rompetrol SRL-trade debts	22,235,373	-
Global Security Systems SA	-	756,025
Global Security Systems Fire Services SRL	1,473,150	546,503
KMG Rompetrol Development	10,014,759	-
Rompetrol Energy SA	30,529,883	47,391,779
KMG Rompetrol Services Center SRL	5,053,254	1,447,320
TRG Petrol Ticaret Anonim Sirketi	10,346	10,346
Total	**4,631,743,267**	**5,636,648,936**

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2023 with annual automatic prolongation of maturity.

25. RELATED PARTIES (continued)

In 2022, respectively 2021, Rompetrol Rafinare had the following transactions with the related parties:

Name of related party	Nature of transaction, sales / purchases	Sales January - December 2022	Sales January - December 2021	Purchases January – December 2022	Purchases January - December 2021
KazMunayGas Trading AG	Raw materials / Petroleum products	4,743,789,344	2,215,642,352	18,049,078,858	10,634,032,278
Rompetrol Downstream SRL	Petroleum products, rent, utilities and other	10,078,921,367	6,099,991,607	2,763,942	2,289,939
Rompetrol Petrochemicals SRL	Rent, utilities and other	-	7,423	-	-
KMG International N.V.	Loan interest, management services	-	-	9,245,259	4,627,708
Rompetrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	695,546,695	366,982,219	745,597	518,227
Rompetrol Moldova ICS	Sales intermediary services	1,828,409,252	585,106,436	-	-
Rompetrol Bulgaria JSC	Sales intermediary services	74,632,467	125,719,252	-	-
Rominserv SRL	Acquisition and maintenance of fixed assets	3,232,801	2,932,181	354,776,471	250,191,166
Rompetrol Quality Control SRL	Laboratory analysis/Rent, utilities, other services, dividends	1,794,505	1,569,783	42,386,730	31,118,678
Rompetrol Logistics SRL	Transport, rent/Rent, utilities	14,867	52,397	164,324	164,324
Midia Marine Terminal SRL	Handling services/ Rent, utilities, reinvoicing, loan interest, others	2,719,800	1,432,437	76,490,513	61,774,739
Rompetrol Well Services SA	Loan interest	-	-	232	155
Midia Green Energy SA (former Uzina Termoelectrica Midia SA)	Acquistion of utilities	-	74,563,453	21,189,697	110,030,804
Rompetrol Energy SA	Acquistion of utilities	203,639,373	28,946,142	257,463,558	33,434,479
KMG Rompetrol SRL	Loan interest, management services	27,177,218	8,434,090	224,453,081	100,888,612
Global Security Systems SA	Security and protection services	1,686	1,494	11,697,395	8,274,900
Global Security Systems Fire Services SRL	Security and protection services	-	-	7,396,118	7,116,312
Byron Shipping SRL	Demurrage /Rent, reinvoices of other services	26,282	24,131	-	57,795
Romoil SA	Reinvoicing bank loan fees	-	74,229	-	3,304
KMG Rompetrol Services Center SRL	Shared services	470,759	536,136	13,900,284	16,603,349
		17,660,376,415	**9,512,015,764**	**19,071,752,058**	**11,261,126,769**

25. RELATED PARTIES (continued)

The Ministry of Public Finance of Romania ("MFPR") held 44.6959% of the share in Rompetrol Rafinare SA from September 2010 until July 2012. Starting July 2012, based on a Government Ordinance, the Ministry of Economy Trade and Business Environment ("MECMA") became shareholder until May 2013 when, following the reorganization of MECMA, the Ministry of Economy ("ME") became the new shareholder. The ministry was later renamed as Ministry of Energy, Small- and Medium-sized Enterprises and Business Environment, afterwards renamed as Ministry of Economy, Energy and Business Environment according to the OUG 68/11.06.2019. Its current name is Ministry of Energy according to the OUG 212/2020.

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

The salaries paid to the Company directors in 2022 were RON 769,242 (RON 769,236 in 2021). The salaries and bonuses paid to the Company management in 2022 (in average 18 persons) was RON 8,167,991 (RON 7,928,369 in 2021, in average 18 persons).

26. EARNINGS PER SHARE

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

	31 December 2022	31 December 2021
Net profit (+), loss (-)	666,277,159	(450,988,114)
Average number of shares	26,559,205,726	26,559,205,726
Result per share - base (bani/share)	2.51	(1.70)

27. CONTINGENT LIABILITIES

Rompetrol Rafinare SA - Distressed Assets - Hybrid Conversion

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

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

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

27. CONTINGENT LIABILITIES (continued)

Accordingly, the Company fulfilled all formalities and in June 30, 2010 increased the share capital with $100.2 million paid the State EUR 54 million and redeemed 2,160,000 bonds. Finally, on September 30, 2010 the remaining bonds were converted into shares and the State became therefore shareholder of the Company with 44.69%.

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

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

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

The litigation against the bonds conversion took place on 30 September, 2010 was settled in March 2014 (after KMGI won the litigation on merits and the State filled in an appeal) once Government approved through Governmental decision no. 35/2014 the Memorandum of Understanding with parent company KMG International NV, pursuant to which the Ministry of Public Finances has been authorized and mandated to pursue all procedural actions required for the withdrawal of the claims and the termination of all Litigations, including the Main Claim, without hearing of the merits thereof. The Memorandum of Understanding includes the following aspects:

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

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

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

Further on, Rompetrol submitted to the Romanian authorities a requirement for the annulment of the precautionary seizure but no positive reply was received.

On June 15, 2021, Rompetrol Rafinare SA submitted to Court of Appeal Constanta a request to order ANAF-General Directorate for the Administration of Large Tax Payers to issue the decision to lift the seizure and on December 21, 2021, the court admitted the request made by Rompetrol Rafinare SA. The appeal is pending, the next hearing will take place in front of the High Court of Cassation and Justice on May 23, 2023.

28. CONTINGENT LIABILITIES (continued)

Risk management and internal control

The Company commitment to integrity, responsibility and ethical conduct is particularly important in the area of bribery and corruption prevention and detection.

The Company is committed to conducting its business fairly, honorably, with integrity and honesty and in compliance with all applicable laws. The Company adopts an approach of zero -tolerance to bribery and corruption in all its business dealings and relationships, wherever it operates. The Company has internal standards and guidelines on due diligence with third parties, conflicts of interest, gifts and hospitality, which focus on mitigating potential corruption risks.

Rompetrol's Code of Ethics and Conduct is approved by the Board of Directors and applies to all directors, executives and employees, whatever the nature of their contractual relationship with the Company. The Code creates a frame of reference for understanding and putting into practice the Company's expectations as to each person's behavior, in light of the Companys principles of action. Rompetrol's employees undergo regular professional trainings, trainings on ethical standards and anti-corruption conduct.

Whistleblowing incidents are taken very seriously by the Company and its directors. Any complaints or allegations received are investigated properly by the assigned departments. The Company has established and maintained an open channel to handle and discuss internal reports concerning finance, internal control and fraud to ensure that all reports will receive enough attention. In line with Irregularity Reporting Policy, the internal investigations conducted during 2022 and up to the approval date of the financial statements did not reveal any cases of ethical misconduct and non-compliance with applicable laws and regulations. The results of all internal investigations were discussed with the Company's statutory bodies, which concluded that the warnings were not confirmed.

28. LEGAL MATTER.

Litigation with the State involving criminal charges

I. Criminal case

According to an Order issued April 22, 2016, Prosecutor's Office of Romania with the General Headquarters of the Department for Fight Against Organized Crime and Terrorism (DIICOT) investigated the case against 26 suspects under charges of organized crime (few of them being former employees/managers of the Company) allegedly perpetrated during 1999 – 2010 – Case 225.

Further prosecutor orders as well statements of defenses were issued and submitted during 2016 – 2019 and finally on December 5, 2019 Prosecutor's Office of Romania closed the criminal file, discharged all allegations and lifted the criminal seizure over Rompetrol Rafinare's assets, but still kept a precautionary seizures over 4 installations (for a value of $106.5m) in case any alleged civil party is damaged by the said ordinance.

On July 2020 the Supreme Court rejected all the complaints against the closing of the file and on October 14, 2022 the remaining criminal seizure was dismissed by the Court.

The Company lifted the criminal precautionary seizure from the Land Book early of 2023.

II. Civil files

A. Once the criminal case was closed, Faber (a former minority shareholder of the Company) submitted a civil claim to the Bucharest court against both the Group companies and former criminal defendants. The Court imposed Faber to pay a stamp fee of $530,000 to have the civil claim duly registered on the court docket.

On May 25, 2020 the Bucharest Court rejected the request of Faber for settlement of the stamp fee that Faber should pay for its claim. On July 8, 2020 Bucharest Court annulled Faber's claim as unstamped. A second similar claim of Faber was rejected again by Bucharest court in January 2022 for non-paying of the stamp fee.

On February 10, 2022 the Company was informed by the Constanta court that Faber submitted for the third time its civil claim in tort against the Group companies and defendants for the same amount of $55m as principal ($118m including penalties). The Company submitted its reply, pointing out that before any step forward Faber should pay the stamp fee according to the law and, on top of it, previous decisions the Bucharest Court issued before on the same matter. No hearing is established yet.

B. On the other hand, as Case 225 was finally closed, Faber resumed several civil cases which were suspended back in 2005 - 2007 due to the 225-criminal case and by which Faber challenged the Rompetrol Rafinare corporate documents approved within the privatization process (2001 - 2006) to meet the terms and conditions of the privatization contract.

Until know all claims of Faber either have been withdrew by Faber or have been dismissed by the Court (for couple of them a final and irrevocably decision being issued).

The next hearings in these files were on January 18, 2023. For two cases Faber waived up and withdrew its claims, for the third one the Court postponed the decision for January 25, 2023.

The next hearing in Faber cases is scheduled for March 3, 2023 and the Court postponed a resolution for March 10, 2023 when the court dismissed the appeal. Faber may fill in a second appeal to be ruled by the Supreme Court.

28. LEGAL MATTERS (continued)

Litigations between Rompetrol Rafinare and National Company – Constanta Maritime Port Administration SA

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta (National Company of Constanta Maritime Ports Administration) of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the assurance of safe access and operation, the company initiated court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (0.8 mil USD) and for restitution of dredging expenses (USD 1.7 million). On 19 May 2017, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff:

- The amount of EUR 1.57 million, representing dredging expenditures paid by Rompetrol Rafinare SA, during the period 30 April 2015 - 11 May 2015;
- The amount of RON 0.079 million representing legal costs.

Both parties filed for appeal against the solution pronounced by first court. On 27 December 2017, Constanta Court of Appeal admitted the appeal filed by Constanta Port Administration, reject the appeal filed by Rompetrol Rafinare SA and changed the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal. The decision has been communicated and the recourse has been filled by Rompetrol Rafinare SA on 6 August 2018. The case is in filter proceedings, and the first hearing term will be established later. During the filter proceedings, National Company "Administratia Porturilor Maritime" SA has raised the exception of inadmissibility of our recourse, motivated by the fact that, according to art. 483 paragraph 2 of the Civil Procedure Code, the decisions regarding the civil navigation and port activity processes are exempted from the right of recourse. Rompetrol Rafinare SA has raised the exception of unconstitutionality regarding the art. 483 paragraph 2 of the Civil Procedure Code. From this reason, The High Court of Cassation and Justice has suspended the procedure until the Constitutional Court solves the exception submitted by Rompetrol Rafinare.

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

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

Following the completion of the criminal prosecution, Rompetrol Rafinare SA, Rominserv SRL and other three employees were put on trial for: the non-observance of the legal labor health and safety measures, bodily harm by negligence, manslaughter and accidental pollution.

The next hearing is scheduled for March 21, 2023 when the witnesses will provide again their statement.

Considering the allegations, each company is facing, a maximum exposure of approximately RON 3.6 million.

Regarding this legal matter Rompetrol Rafinare booked a provision in amount of RON 3.6 million.

Litigation on Tax Assessments received by Rompetrol Rafinare SA in 2017

In December 2017, the National Agency for Tax Administration finalized the tax inspection in Rompetrol Rafinare (covering the period 2011 - 2015) for: VAT fiscal group (all entities from fiscal group were under fiscal control), income tax, withholding tax and excise.

28. LEGAL MATTERS (continued)

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

The tax assessment on VAT group and Rompetrol Rafinare SA was challenged on 26 February 2018. The contestation received a partial negative answer and the Group appealed against it in front of the Court of Appeal Constanta on July 25, 2019.

On April 28, 2021, Constanta Court of Appeal rejected Rompetrol Rafinare claim as ungrounded.

The Company submitted an appeal in front of the High Court of Justice. The first term was set in the appeal for May 25, 2023.

Regarding this legal matter Rompetrol Rafinare booked a provision in amount of RON 11.5 million as of December 31, 2022, the total amount recognized is RON 25.1 million.

Criminal case concerning Petromidia Refinery incident on July 2nd 2021

On July 2, 2021 there was an explosion followed by a fire at Petromidia refinery, Diesel Hydrotreatment Unit (in Romanian "instalatia Hidrofinare Petrol Motorina" hereinafter HPM plant). As a result of the incident, 3 employees of the company died and one employee was hospitalized due to a hip fracture. The criminal investigations are carried out by the Prosecutor's Office attached to the Constanta Tribunal, was finalised and communicated to the Company the technical expertise carried out by INCD INSEMEX Petrosani, at the request of the criminal investigation bodies, the document will be analysed by the criminal lawyers, the party expert and the company's specialists; the company has the quality of a civilly responsible party, hearings of the employees involved in the incident were performed. At the same time, the collective work accident is being investigated by the Territorial Labour Inspectorate according to the incident legislation.

On July 11, 2022 the company settled the last potential civil claim with the heir of one of the employee passed away during the said incident.

DIICOT Criminal Investigation File

During the investigation carried out by the Directorate for the Investigation of Organized Crime and Terrorism ("DIICOT"), investigation which is the subject of criminal case 279 / D / P / 2020, to the Company were communicated during 2021 a series of ordinances by which was requested to provide the documents to the criminal investigation bodies in connection with the works contracted for the greening of the lagoon 18 from the Vega refinery. The company has no quality in the criminal case. The suspicions of the criminal investigation bodies concern the alleged fictitious character of some services for which the Company would have unjustifiably paid the amount of approximately 10 million RON. On 23.02.2022, DIICOT informed the Company if it intends to become a civil party in the criminal proceedings mentioned above, the Company reserve right in relation to the evolution of the criminal case that is the subject of criminal case 279 / D / P / 2020, to make such a request to become a civil party, if the case.

The trial was sent to the regular panel and is expected a first hearing to be established. On March 2, 2023, the court kept the judicial control over the company's employees but lifting the interdiction for leaving the country.

29. COMMITMENTS

Environmental risks and obligation

The company's business activity is subject to constantly changing local, national and European regulations relating to the environment and industrial activity, which entail meeting increasingly complex and restrictive requirements. In this regard, these activities can involve a financial resource in order to comply with the incidental restrictive legislation and regulation relating to the Company's activities.

Although the Company has provided for known environmental obligations that are probable and reasonably estimable, it is possible that the Company will continue to incur additional liabilities.

As of 31 December 2022, the Company reassed environmental provision considering changes in assumptions as compared with previous period:

- obligation to set up the closure and post-closure monitoring fund of the hazardous waste landfill, based on technical project of closure and post-closure monitoring, obligation establish in the Company responsibility by the competent environmental authority on October 2022, through revised Environmental Integrated Permit issued for Vega refinery;
- updated prices for rehabilitation works of the remaining lagoons, taking in consideration as reference the prices included in the concluded agreements, increased as a result of the offers received, formulated considering of the price with an increase to reflect the evolution of additives and fuel price, also the increase of the minimum gross salary.

As a result of these risks, environmental liabilities could be substantial and incur additional costs that may impact the Company's results of operations and cash flow.

Company's financial statements account for provisions relating to the costs of environmental obligations that can be reasonably estimated in a reliable manner.

During 2022, the Company has continued with the greening process of Vega lagoons, progress and status of the project being reported on a regular basis to the environmental competent authorities. As a result of the discussions held with the environmental authorities since 2021, they decided that the environmental agreement revised in January 2021 is in force and produce legal effects; also in the revised integrated environmental permit issued for Vega refinery on November 2022 has been mentioned conditions regarding execution of the rehabilitation works without any term, so that the Company can execute the works according to the technical project of closure and post-closure monitoring, which will be developed and approved by the authorities.

In 2021, the Company has carried out the due diligence procedures in accordance with Law 74/2019 in relation to the storage area of the biological waste resulted from IAZ no.1 ("Vadu cassettes"). The process is ongoing and performed in accordance with the requirements of the competent environmental authorities ("EPA Constanta"). During 2021, an external expert performed a feasibility study and the results were communicated to the environmental authorities. Next steps for remedial actions are expected to be communicated by the competent authority in the following period.

As of 31 December 2022, the Company has recognized a provision for restoration costs related to Vega lagoons and also for Vadu cassettes (in 2021), see Note 17.

29. COMMITMENTS (continued)

Climate change and energy transition

The oil and gas industry is facing new challenges as the world transitions to a low-carbon economy. The world is undergoing rapid changes as the sustainability and, primarily, the climate agenda come into force. In this context, the change is expected to bring both threats and additional opportunities, as the world needs to reduce greenhouse emissions while continuing sustainable economic growth.

Rompetrol Rafinare is aware of the importance of climate matters and supports European commitments for emissions reduction set out in the Paris Agreement and is aiming to build a sustainable, resilient business in the long run and to reduce CO2 emissions. Estimating global energy demand towards 2050 is an extremely difficult mission. The Company's business plans are built for a period of 5 years and consider certain actions taken to reach its net-zero emissions target by 2050. Our business plans reflect the current economic environment and Company's reasonable expectations of how the next 5 years will progress.

The Company is focused on increasing resilience and profitability by diversification and further transition from diversified downstream player to energy provider. To address these objectives, projects have been defined, corresponding to different time horizons, with highest priority on the short to mid-term projects implemented in the existing markets with the production and distribution capacity already planned. However, meeting the goals of the low-carbon economy is a global aspiration that must be cemented in reality. This requires the world economy to transform in complex and connected ways and Company's standalone Financial Statements for the year ended 31 December 2022 reflect the world as it currently exists and what Management reasonably expects in the foreseeable future based on current facts and evidence.

On the mid-term, it is expected a favorable economic outlook with a positive impact for road fuels demand driven by increasing motorization rate and small electrification rates in CEE. Extensive development of retail and wholesale channels in Romania remains an important direction for development until 2025, to ensure mitigation of oil and refinery margin fluctuations and increase profitability through volumes.

On the long-term (2035+) road fuels demand will be negatively impacted by the population decline, higher electrification rate, as well as vehicle energy efficiency improvement. Decreasing demand for fuels will put pressure on refining volumes, utilization and margins.

For updated Company's strategy regarding climate change and energy transition please refer to Note 2b).

War and conflict riks

In the context of the military conflict between Russia and Ukraine, started on 24 February 2022, the EU, USA, UK, Switzerland and other countries imposed various sanctions against Russia, including financing restrictions on certain Russian banks and state-owned companies, sectoral sanctions, import/export restrictions as well as personal sanctions against a number of individuals.

Considering the geopolitical tensions, since February 2022, there has been an increase in financial markets volatility and exchange rate depreciation pressure.

The war in the Ukraine and its related short- term consequences are creating increasing geopolitical risks and further challenges for global supply chains are to be expected which will impact the global economy. We anticipate that the global challenging conditions will persist for the following months.

At present, we are monitoring very closely the current situation and developments of sanctions and related restrictions applied to Russian environment by relevant international stakeholders and regularly conduct a risk assessment on this basis. We are in constant dialogue with our customers and suppliers in the region and try to stay in connection with competent authorities in order to identify any potential impact of newly issued sanctions on our business and supply chains at an early stage and act accordingly.

29. COMMITMENTS (continued)

The negative hedge result booked in 2022 was a consequence of Russia's invasion over Ukraine and market volatility after invasion. Crude price increased to levels last seen in 2008 (Rompetrol Rafinare's hedge strategy for the inventory is protection against price decrease) and the Urals heavy crudes grades spread over Dated Brent moved in a very wide range after Russian invasion, some of them reaching the historical low levels. On the other hand, the Refinery margins increased to record levels due to very strong oil products cracks coming from tight supply and increasing mobility in European countries and due to the Urals-Dated Brent differential collapsed to historical low of -34$/bbl., while its average level of the past 10 years is -1$/bbl.

The Company does not have direct exposures to related parties and/or key customers or suppliers from those countries. The Company's sources for crude oil are not from Russia and the Company does not have operations in Russia or Ukraine.

Cyber risk

The progress made toward digitalization certainly brings great benefits, however as the use of new technologies and their capabilities increases, so do the risks derived from their exposure in cyberspace, the reliance on the systems deployed and the information generated by the Company. The risks are not only technical but also business related and may lead to operational disruptions, fraud or theft of sensitive information.

The Company is heavily dependent on the information technology systems, including the network infrastructure for the safe and effective operation of the business. The Company rely on such systems to process, transmit and store electronic information, including financial records and personally identifiable information and to manage or support a variety of business processes, including the supply chain, pipeline operations, gathering and processing operations, retail sales, financial transactions, banking and numerous other processes and transactions. Any interruption or failure of any information technology system, including an interruption or failure due to a cybersecurity breach, could have an adverse effect on the business, financial condition, results of operations and cash flows.

The systems and infrastructure are subject to potential damage or interruption from a number of potential sources including, power failures and cyberattacks and other events and our cybersecurity protections, infrastructure protection technologies, disaster recovery plans and employee training may not be sufficient to defend us against all unauthorized attempts to access our information.

In 2022, the Company was subject to an attempt to gain unauthorized access to the computer network and systems, which did not result in major operational disruptions and have not had a material adverse effect, however this kind of events may occur in the future.

The Company continuously improves cyber security capabilities. and supervise the cyber security activity, ensuring the protection of the confidentiality, integrity and availability of data. Also, the Company continuously educates their employees and partners about cyber security risks and support them to act in a responsible way.

Work safety and safe operations

Protecting the employees is a priority of the company, and the company is committed to safe responsible operations to protect the health and safety of our employees, contractors and communities. This commitment is reflected in our safety system design and our focus on continuous learning and development achieved through training in human rights and work safety.

Besides the set of measures and policies in place, work accidents can still occur, however the company's top priorities remain the improvement of industrial safety, reduce work-related injuries and accidents-free operation of production facilities.

29. COMMITMENTS (continued)

Other commitments

As of 31 December 2022, Rompetrol Rafinare SA contracted capital commitments for projects related to capital maintenance, authorizations and compliance with Euro standards at the Petromidia refinery in amount of USD 50.9 million RON equivalent 234.1 million. (2021: USD 61.91 million, RON equivalent 284,7 million) and Vega refinery of USD 0.88 million RON equivalent 4 million (2021: USD 3.13 million, RON equivalent 14,3).

Sale and purchase commitments

As of 31 December 2022, Rompetrol Rafinare SA contracted purchase contracts for raw materials and utilities estimated to USD 4,243.18 million RON equivalent 19,518 million (2021: USD 2,393.72 million RON equivalent 11,011 million) and has commitments for sales of petroleum, petrochemicals products and utilities sales estimated to USD 4,952.07 million RON equivalent 22,779 (2021: USD 3,876.93 million RON equivalent 17,830).

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS

A. CAPITAL RISK

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

B. GEARING RATIO

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

	31 December 2022	**31 December 2021**
Debt (excluding shareholder and related parties loans)	283,618,888	603,320,093
Cash and cash equivalents	(23,243,490)	(87,598,088)
Net Borrowings	**260,375,398**	**515,722,005**
Equity (including shareholder and related parties loans)	2,919,993,039	2,331,807,666
Gearing ratio	**8.9%**	**22.1%**

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

C. FINANCIAL INSTRUMENTS

	31 December 2022	31 December 2021
Financial assets		
Investments in subsidiaries	3,170,968,557	2,632,755,594
Trade receivables and other receivables	1,051,164,741	1,341,596,327
Derivatives	11,856,741	104,688,216
Cash and bank accounts	23,243,490	87,598,088
TOTAL FINANCIAL ASSETS	**4,257,233,529**	**4,166,638,225**

Financial liabilities	31 December 2022	31 December 2021
Derivatives	21,584,319	15,908,942
Commercial liabilities and other liabilities	5,235,846,953	6,001,822,082
Short term loans	283,618,888	185,296,974
Long term borrowings from banks	-	418,023,119
Lease debts	57,560,826	58,761,694
Profit tax payable	577,634,789	-
TOTAL FINANCIAL LIABILITIES	**6,176,245,776**	**6,679,812,811**

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

- VAT to be recovered;
- Profit tax to be recovered;
- Other taxes to be recovered.

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

- Excises taxes;
- Special fund for oil products (FSPP);
- VAT payable;
- Profit tax payable;
- Salary taxes payable;
- Other taxes;

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

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

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques;
- The Company enters into derivative financial instruments with various counterparties. As at 31 December 2022, the marked to market value of derivative position is for financial instruments recognised at fair value.

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

Fair value hierarchy

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

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

	31 December 2022	Level 1	Level 2	Level 3
Financial assets				
Investments in subsidiaries	3,170,968,557	-	-	3,170,968,557
Trade receivables and other receivables	1,051,164,741	-	1,051,164,741	-
Derivatives	11,856,741	-	11,856,741	-
Cash and bank accounts	23,243,490	23,243,490	-	-
TOTAL FINANCIAL ASSETS	**4,257,233,529**	**23,243,490**	**1,063,021,482**	**3,170,968,557**
Financial liabilities				
Derivatives	21,584,319	-	21,584,319	-
Commercial liabilities and other liabilities	5,235,846,953	-	5,235,846,953	-
Short term loans	283,618,888	-	283,618,888	-
Lease debts	57,560,826	-	57,560,826	-
Profit tax payable	577,634,789	-	577,634,789	
TOTAL FINANCIAL LIABILITIES	**6,176,245,776**	**-**	**6,176,245,776**	**-**

	31 December 2021	Level 1	Level 2	Level 3
Financial assets				
Investments in subsidiaries	2,632,755,594	-	-	2,632,755,594
Trade receivables and other receivables	1,341,596,327	-	1,341,596,327	-
Derivatives	104,688,216	-	104,688,216	-
Cash and bank accounts	87,598,088	87,598,088	-	-
TOTAL FINANCIAL ASSETS	**4,166,638,225**	**87,598,088**	**1,446,284,543**	**2,632,755,594**
Financial liabilities				
Derivatives	15,908,942	-	15,908,942	-
Commercial liabilities and other liabilities	6,001,822,082	-	6,001,822,082	-
Short term loans	185,296,974	-	185,296,974	-
Long term borrowings from banks	418,023,119	-	418,023,119	-
Lease debts	58,761,694	-	58,761,694	-
TOTAL FINANCIAL LIABILITIES	**6,679,812,811**	**-**	**6,679,812,811**	**-**

At 31 December 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

D. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company performs hedging transactions regarding the risk of increasing USD interest rates.

Balance sheet

	31 December 2022	31 December 2021
Derivative financial assets	11,856,741	104,688,216
Derivative financial liabilities	(21,584,319)	(15,908,942)
Net position – asset / (liability)	**(9,727,578)**	**88,779,274**

Income Statement

	31 December 2022	31 December 2021
Realised losses – net	1,114,463,981	128,773,774
Total position - loss - in Cost of sales	**1,114,463,981**	**128,773,774**

A movement in derivatives assets / (liabilities) is shown below:

	31 December 2022	31 December 2021
Derivative asset / (liability) 2021	**88,779,274**	**(617,651)**
Cash received / (payments)	14,408,621	(13,790,968)
Cash flow hedge reserve	(112,915,474)	103,187,894
Derivative asset / (liability) 2022	**(9,727,578)**	**88,779,274**

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

The negative result recorded in 2022 presented in Cost of sales is detailed in Note 19.

As of December 31, 2022 Cash flow hedge in amount of RON (112.9) million refers to RON (9.7) million from hedge open position at the end of the year and RON (103.2) million reversal of MTM opening balance (as af 31 December 2021) for CO2 allowances.

During 2022 the net impact for EUA strategy is RON 1.3 million RON, as a result of EUA certificates that were traded for 2021 EUA compliance according to risk management and cash strategy

As of 31 December 2022 the Company has an open position for 770k EUA certificates which is due by the end of March 2023, when the compliance for 2022 is expected.

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

Cash flow hedge reserve in amount of RON 103.2 million mainly refers to long opened position as of 31 December 2021 for 900 thousand EUA certificates. Fair value of open positions as of 31 December 2021 is performed through mark-to-market method ("MTM") using the last price from trading platform in case of EUA certificates and the last price communicated by the broker in case of diesel and gasoline and base operating stock.

The main impact is coming from EUA transactions as follows:

- 28.6 mil USD Negative impact coming mainly from EUA margin calls paid during January-March which was a return (payment back) of excess margin received during 2021 (we opened position at 57 EUR and price increased to 80 EUR at the end of Dec '21 after this, in Mar '22, price decreased back to 60 EUR).
- 4.66 mil USD Negative impact coming from opened EUA position, mark-to-market negative impact at the end of December.
- 11.6 mil USD This amount is coming from additional certificates bought for compliance versus available certificates (we bought 800k EUA and we sold 660k EUA).

The Company has the following hedge transactions that qualify for fair value hedge:

Transaction	Hedged item	Risk hedged	Hedging instrument
Commodity purchase / sell at fixed price	Base operating stock (BOS) – meaning crude oil, feedstock, diesel, gasoline and jet Priced operational stock above or below BOS	Commodity price risk	Swap, Future, Purchase put / call option
Foreign exchange risk related to monetary item	Monetary item not in the functional currency of the Company	Change in foreign exchange rate	Swap, currency forward
Foreign exchange risk related to a firm commitment	Firm commitment not denominated in the functional currency of the Company	Change in foreign exchange rate	Swap, currency forward
Fair value risk related to fixed interest rates	Receivable or liability at fixed interest rate	Interest related fair value risk	Swap

The Company has the following hedge transactions that qualify for cash flow hedge:

Transaction	Hedged item	Risk hedged	Hedging instrument
Forecasted commodity purchase / sell	Forecasted refinery margin basket and forecasted Dated Brent differential	Commodity price risk	Swap, Future, Purchased put / call option
EUA certificates	Forecasted EUA certificates purchase	EUA certificate price risk	Futures

E. MARKET RISK

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

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

F. FOREIGN CURRENCY RISK MANAGEMENT

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

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

G. FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

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

	USD		**EUR**	
	31 December 2022	**31 December 2021**	**31 December 2022**	**31 December 2021**
RON				
5%	(124,845,115)	(186,954,955)	(7,952,013)	10,900,749
(5%)	124,845,115	186,954,955	7,952,013	(10,900,749)

H. INTEREST RATE RISK MANAGEMENT

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Company to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Company's borrowings, are provided in Note 14 and 15.

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

If the interest rates had varied by + / - 50 points and all the other variables had remained constant, the net result of the Company as at 31 December 2022 would increase / decrease by RON 26.0 million (2021: increase / decrease by RON 27.3 million).

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

I. Liquidity risk

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2022 and 31 December 2021 based on contractual outdated payments, including interest payable until the end of the contracts for finance leasing and loans.

Balance as at 31 December 2022	**Less than 1 month or current**	**<3 months**	**3 – 12 months**	**1 - 5 years**	**>5 years**	**Total**
Trade and other payables	4,998,564,147	237,031,117	251,690	-	-	**5,235,846,953**
Derivatives	-	21,584,319	-	-	-	**21,584,319**
Short term borrowings from banks	1,781,039	5,136,406	288,332,073	-	-	**295,249,518**
Lease debts	389,672	779,344	3,507,049	15,297,853	60,212,902	**80,186,821**
	5,000,734,858	**264,531,186**	**292,090,812**	**15,297,853**	**60,212,902**	**5,632,867,612**

Balance as at 31 December 2021	**Less than 1 month or current**	**<3 months**	**3 – 12 months**	**1 - 5 years**	**>5 years**	**Total**
Trade and other payables	5,301,359,142	673,590,160	26,872,780	-	-	**6,001,822,082**
Derivatives	15,908,942	-	-	-	-	**15,908,942**
Short term borrowings from banks	185,296,974	489,109	-	-	-	**185,786,083**
Long term borrowings from banks	418,023,119	2,982,595	8,947,785	3,976,793	-	**433,930,292**
Lease debts	363,654	727,307	3,272,883	15,131,651	63,635,840	**83,131,336**
	5,920,951,831	**677,789,172**	**39,093,448**	**19,108,444**	**63,635,840**	**6,720,578,735**

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

J. OIL PRODUCTS and RAW MATERIAL PRICE RISK

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

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

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

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

At Company level, the net impact of the commodity hedges was negative, USD 83.5 million in 2022, mainly driven by the Urals-Dated Brent differential transactions (USD 78.3 million). The military action of Russian against Ukraine starting 24th of February 2022 lead to un-precedented collapse of the Urals differential to -34$/bbl., triggered by the drop in demand for Russian crude oil. The Company succeed to close 75% of the Urals differential hedge positions on 18th of March 2022 at -5.9$/bbl. After that, the Refinery managed to buy heavy crude oil at better discounts, between -15 and -25$/bbl., resulting in a higher gain on Physical side vs. Paper loss from hedging transactions. The hedge program for 2022 includes: inventory hedge until March 2022, refinery margin hedge for 860KT, and 14.15 mil bbl. Urals-Dated Brent differential hedge.

The Refining activity of the Company is exposed to the increase of the EUA certificates prices. Rompetrol Refinery CO_2 emissions are offset with EUA certificates. As a mitigation measure, the Financial Risk Management Department is monitoring the EUA market in order to hedge EUA deficit of the Refinery for the first part of phase IV (2021-2025). When the market price will be within the target level of the Company, hedge operations will be carried on.

30. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

K. CREDIT RISK

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

Trade receivables

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

Financial instruments and bank deposits

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

31. SUBSEQUENT EVENTS

- The Company performed an assessment of the events subsequent to the balance sheet date through the date for the financial statements and determined there are no subsequent adjusting events that may require disclosure in the financial statements.

The standalone financial statements have been endorsed by the Board of Directors on 24 March 2023 and will be submitted for approval by the Ordinary General Assembly of Shareholders on 27 April 2023 by:

YEDIL UTEKOV
Chairman of the Board of Directors
DocuSigned by: Yedil Utekov
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FELIX CRUDU-TESLOVEANU
General Manager
DocuSigned by: Felix Crudu Tesloveanu
8C456324FA134C6...

RAMONA GEORGIANA GALATEANU
Financial Manager
DocuSigned by: Ramona Galateanu
13328E857004454...

Prepared by, Alexandru Cornel Anton
Chief Accountant
DocuSigned by: Alexandru Anton
BB329880337E4FA...