

**ROMPETROL RAFINARE S.A.**

**INDIVIDUAL FINANCIAL STATEMENTS**

**Prepared in compliance with**

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

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

**31 DECEMBER 2017**



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## **RAPORTUL AUDITORULUI INDEPENDENT** **INDEPENDENT AUDITOR'S REPORT**

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

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

### **Opinia** *Opinion*

Am auditat situatiile financiare ale societatii Rompetrol Rafinare S.A. cu sediul social in Bulevardul Navodari, nr. 215, Pavilion Administrativ, 907500 - Navodari, Romania, identificata prin codul unic de inregistrare fiscala RO1860712, care cuprind situatia pozitiei financiare la data de 31 decembrie 2017, contul de profit si pierdere, alte elemente ale rezultatului global, situatia modificarilor capitalului propriu si situatia fluxurilor de trezorerie pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative.

*We have audited the financial statements of Rompetrol Rafinare S.A. with official head office in 215, Navodari Boulevard, Administrative Pavilion, 907500 - Navodari, Romania, identified by sole fiscal registration number RO1860712, which comprise the statement of financial position as at December 31, 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.*

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a Societatii la data de 31 decembrie 2017, ca si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare.

*In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.*

## **Bazele opiniei** *Basis for opinion*

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA), Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului din 16 aprilie 2014 („Regulamentul (UE) nr. 537/2014”) si Legii nr.162 /2017 („Legea 162/2017”). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare” din raportul nostru.

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

*We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 (“Regulation (EU) No. 537/2014”) and Law 162/2017 (“Law 162/2017”). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report.*

*We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.*

## **Aspecte cheie de audit** *Key audit matters*

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

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

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

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

Am îndeplinit responsabilitățile descrise în secțiunea „Responsabilitățile auditorului pentru auditul situațiilor financiare” din raportul nostru, inclusiv în legătura cu aceste aspecte cheie. În consecință, auditul nostru a inclus efectuarea procedurilor proiectate să răspundă la evaluarea noastră cu privire la riscul de erori semnificative în cadrul situațiilor financiare. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastră de audit asupra situațiilor financiare anexate.

*We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.*

Aspecte cheie de audit	Modul în care auditul nostru a abordat aspectul cheie de audit
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### **Testarea pentru depreciere a imobilizărilor corporale și investițiilor în filiale**

Informațiile prezentate de Rompetrol Rafinare cu privire la imobilizările corporale și investițiile în filiale, inclusiv cu privire la deprecierea aferentă, sunt incluse în nota 5 și respectiv nota 6.

Imobilizările corporale și investițiile în filiale sunt semnificative pentru auditul nostru, având în vedere importanța poziției bilanțiere de 3.680 milioane RON și respectiv 1.629 milioane RON la 31 decembrie 2017. De asemenea, evaluarea conducerii cu privire la indicatorii de depreciere a unităților generatoare de numerar (UGN) și a investițiilor implică analiza unor surse de informații diverse, inclusiv a factorilor cu privire la mediul economic și a factorilor specifici industriei.

În plus, în 2017 Societatea și-a schimbat politica contabilă pentru evaluarea clădirilor, de la modelul pe baza de cost la modelul bazat pe reevaluare, care a condus la o creștere netă în valoarea contabilă a clădirilor de 695 milioane RON.

Procedurile noastre de audit au inclus, printre altele:

- am analizat și evaluat judecata conducerii cu privire la existența indicatorilor de depreciere pentru imobilizări corporale și respectiv investițiile în filiale, luând în considerare, de asemenea, dacă testul de depreciere a acoperit toate UGN /activele individuale semnificative pentru care au existat indicatori de depreciere la sfârșitul perioadei de raportare;
- am comparat volumele de producție/vanzări și costurile actuale în 2017 ale fiecărei UGN cu volumele de producție/vanzări și costuri estimate în bugetul pregătit pentru 2017;
- am comparat prețurile viitoare pe termen scurt și lung pentru titei și gaze și marjele produselor folosite în bugetele Societății cu previziunile analiștilor și cele adoptate

Industria de petrol si gaze a trecut prin schimbari semnificative ca urmare a declinului preturilor petrolului si gazelor incepand cu ultima parte a anului 2014, ceea ce a condus la inchiderea unor capacitati de productie si amanarea investitiilor de catre unii jucatori din industrie. La 31 decembrie 2017 conducerea a identificat indicatori de depreciere si a efectuat testari pentru depreciere separate cu privire la imobilizarile corporale ale celor doua UGN ale Societatii (Rafinare, cu o valoare contabila neta a imobilizarilor corporale de 3.170 milioane RON si Petrochimie cu o valoare contabila neta a imobilizarilor corporale de 337 milioane RON), rezultatul fiind absenta necesitatii recunoasterii unei pierderi din depreciere. De asemenea, a fost efectuata o analiza a indicatorilor de depreciere pentru investitiile in filialele Societatii (Rompetroil Downstream S.R.L., Rompetrol Petrochemicals S.R.L., Rom Oil S.R.L., Rompetrol Logistics S.R.L., Rompetrol Quality Control S.R.L.)

Aceasta testare pentru depreciere este semnificativa pentru auditul nostru deoarece procesul de evaluare este complex, implica rationamente semnificative ale conducerii si se bazeaza pe ipoteze care sunt afectate de conditiile de piata viitoare din Romania si tarile invecinate.

de alte societati internationale din domeniul petrolier;

- am evaluat acuratetea istorica a bugetelor si estimarilor conducerii prin compararea lor cu performanta efectiv realizata si cu cea a anului anterior;
- am implicat specialistii nostri evaluatori interni pentru a ne asista la evaluarea ipotezelor-cheie si a metodologiilor aplicate de Societate pentru testarea de depreciere a imobilizarilor corporale. Evaluarea noastra s-a axat pe estimarea ratei de actualizare folosite, pe analiza privind senzitivitatea valorilor recuperabile ale UGN la modificarile ipotezelor semnificative, precum si pe ipotezele-cheie aplicate la estimarea fluxurilor de numerar viitoare pentru UGN respective (cum ar fi preturile de vanzare preconizate, volumele de productie/vanzare, marjele produselor, modificarile capitalului de lucru, etc.), analizand conformitatea acestora cu mediul economic general si cel specific industriei, cu informatiile de piata relevante disponibile si cu planurile de afaceri ale Societatii;
- am testat acuratetea matematica a modelului;

Ca parte a procedurilor noastre de audit specifice cu privire la reevaluarea cladirilor, am obtinut raportul de reevaluare emis de expertul evaluator extern angajat de Societate si am efectuat urmatoarele proceduri:

- am evaluat independenta si competenta expertului evaluator extern;
- am implicat specialistii nostri evaluatori interni pentru a ne asista in aprecierea metodologiilor de evaluare folosite si in testarea principalelor ipoteze (incluzand factorii de indexare folositi in determinarea costului de inlocuire folosind metoda indirecta/de indexare, testand durata de viata ramasa si cea totala pentru activele evaluate pe categorii,

estimarea factorilor de depreciere specifici pentru activele nefolosite sau uzate, testand informatia de piata acolo unde este relevant) prin comparatie cu trendurile istorice si informatii externe;

- am testat, pe baza unui esantion, acuratetea matematica a calculelor cheie observate in cadrul raportului de evaluare pregatit de evaluatorul independent.

Am evaluat de asemenea caracterul adecvat al informatiilor prezentate de Rompetrol Rafinare cu privire la imobiliarile corporale si investitii in filiale, incluzand deprecierea aferenta.

### ***Recuperabilitatea creantei privind impozitul pe profit amanat***

Informatiile prezentate de Rompetrol Rafinare cu privire la creanta privind impozitul pe profitul amanat sunt incluse in nota 20.

Dupa cum este prezentat in nota 20 la situatiile financiare, la 31 decembrie 2017 Societatea a recunoscut o creanta de impozit pe profit amanat de 157 milioane RON, rezultand din pierderi fiscale reportate.

Creanta privind impozitul pe profit amanat are o importanta semnificativa pentru auditul nostru, avand in vedere importanta pozitiei bilantiere la 31 decembrie 2017 si faptul ca, pentru evaluarea recuperabilitatii soldului, procesul de estimare necesita rationamente ale conducerii, in special raportat la informatiile privind suficienta veniturilor impozabile previzionate, pe baza carora pierderile fiscale pot fi folosite, preconizandu-se ca unele dintre acestea vor fi generate peste mai multi ani in viitor.

Procedurile noastre de audit s-au axat pe evaluarea ipotezelor-cheie ale conducerii cu privire la recuperabilitatea creantei privind impozitul pe profit amanat, cum ar fi previziuni care stau la baza recunoasterii activului, inclusiv sumarul datelor de expirare a pierderilor fiscale. Am evaluat conformitatea acestor previziuni cu planurile de afaceri pe termen lung aplicate de conducere pentru gestionarea si monitorizarea performantei activitatii.

Specialistii nostri interni in aspecte fiscale au fost implicati, daca a fost cazul, in procedurile noastre de audit in domeniul impozitarii curente si efectul oricarei evaluari relevante a fost luat in considerare in cadrul evaluarii noastre cu privire la proiectiile privind profitul impozabil.

De asemenea, am evaluat caracterul adecvat al informatiilor prezentate de Societate cu privire la creanta privind impozitul pe profit amanat.

### **Completitudinea si caracterul adecvat al provizioanelor pentru litigii**

Informatiile prezentate de Rompetrol Rafinare cu privire la litigii sunt incluse in nota 25.

Societatea este implicata in litigii diferite si semnificative, inclusiv in legatura cu proceduri de reglementare si/sau guvernamentale, precum si investigatii ale autoritatilor fiscale care sunt prezentate la nota 25 din situatiile financiare. Aceste aspecte sunt importante pentru auditul nostru datorita incertitudinilor inerente cu privire la rezultatul final al acestor litigii, complexitatea cazurilor si rationamentul semnificativ aplicat de conducere in estimarea rezultatului final al acestor evaluari si al expunerilor (ex. daca o datorie ar trebui recunoscuta sau o datorie contingenta ar trebui prezentata si daca o potentiala iesire de numerar poate fi estimata in mod credibil).

Datorita importantei si complexitatii acestor litigii, rezultate nefavorabile ar putea avea un potential impact asupra performantei financiare si pozitiei financiare a Societatii.

Procedurile noastre de audit au inclus, printre altele, obtinerea de confirmari de la avocatii externi ai Societatii care ofera asistenta cu privire la aceste cazuri precum si documentatie suport de la departamentul juridic intern al Societatii, cu privire la stadiul acestor litigii. Am examinat procesele verbale ale Consiliului de Administratie si am efectuat intalniri periodice cu conducerea pentru a discuta si intelege evolutia acestor actiuni legale, ipotezele si rationamentul conducerii cu privire la aceste aspecte.

Am evaluat daca opiniile avocatilor externi si a departamentului juridic intern sunt in concordanta cu ipotezele si estimarile aplicate de conducere in ceea ce priveste recunoasterea si evaluarea provizioanelor sau evaluarea si prezentarea datoriilor contingente cu privire la aceste aspecte, pe baza evenimentelor si circumstantelor existente.

Specialistii nostri interni au fost implicati, daca a fost cazul, pentru a ne asista in a analiza cazurile legale si ipotezele efectuate de conducere.

De asemenea, am evaluat caracterul adecvat al informatiilor prezentate cu privire la provizioane si datorii contingente rezultate din aceste actiuni legale.

Key audit matter	How our audit addressed the key audit matter
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#### ***Impairment testing of property, plant and equipment and investments in subsidiaries***

***Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment, are included in Note 5 and Note 6 respectively.***

***Property, plant and equipment (PPE) and investments in subsidiaries are significant to our audit because of the magnitude of the balance sheet position of RON 3,680 million and RON 1,629 million, respectively, as at 31 December***

***Our audit procedures included, among others:***

- we analysed and evaluated the management's assessment of the existence of impairment indicators, for property, plant and equipment and***

2017. Furthermore, the management's assessment of impairment indicators for cash generating units (CGUs) and investments involves consideration of various sources of information, including factors related to the economic environment and industry specific factors. In addition, in 2017 the Company changed its accounting policy for measurement of buildings, from cost model to revaluation model, which led to a net increase in the carrying value of buildings of RON 695 million.

The oil and gas industry went through significant changes following a decline in oil and gas prices since late 2014, which resulted in capacity shutdowns and deferred investments by some players in the industry. As of 31 December 2017 the management has identified impairment indicators and has performed separate impairment testing in respect of the property, plant and equipment of the Company's two CGUs (Refining, with a PPE carrying value of RON 3,170 million and Petrochemicals with a PPE carrying value of RON 337 million), resulting in no impairment loss being necessary to be recognised. Furthermore, an assessment of impairment indicators has been made for the investments in the Company's subsidiaries (Rompetro Downstream S.R.L., Rompetro Petrochemicals S.R.L., Rom Oil S.R.L., Rompetro Logistics S.R.L., Rompetro Quality Control S.R.L.)

The impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future market conditions in Romania and neighbouring countries.

investments in subsidiaries, respectively, considering also whether the impairment testing covered all significant cash generating units/individual assets for which impairment indicators existed at the end of the reporting period;

- we compared the actual production/sales volumes and costs in 2017 of each CGU with the production/sales volumes and costs estimates in the budget prepared in 2017;
- we compared the future short and long term oil and gas prices and product margins used in the Company's budgets to consensus analyst's forecasts and those adopted by other international oil companies;
- we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- we involved our internal valuation specialists to assist us in evaluating the key assumptions and the methodologies used by the Company for the impairment testing of property, plant and equipment. Our evaluation was focused on the discount rate estimate, on the sensitivity analysis of the CGUs' recoverable amounts to changes in the significant assumptions, as well as on the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected sales prices, production/sales volumes, product margins, working capital changes, etc.) by analysing their consistency with the general and industry-specific economic environment, relevant available market information and the business plans of the Company;
- we tested the mathematical accuracy of the models;

As part of our specific audit procedures on revaluation of buildings we obtained the



valuation report issued by the external valuation expert engaged by the Company and performed the following procedures:

- assessed the independence and the competence of the external valuation expert;
- involved our internal valuation specialists to assist us in the evaluation of the valuation methodologies used and testing the main assumptions (including indexation factors used in deriving replacement cost using the indirect/indexation method, testing the remaining and total useful lives assumptions for the valued assets by classes, estimation of specific depreciation factors for idle or obsolete assets, testing market based inputs where relevant) against historical trends and external data;
- tested on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraiser.

Furthermore we assessed the adequacy of Rompetrol Rafinare's disclosures about property, plant and equipment and investments in subsidiaries, including the related impairment.

### **Recoverability of deferred tax assets**

**Rompetrol Rafinare's disclosures about deferred tax assets are included in Note 20.**

As presented in Note 20 to the financial statements, as at 31 December 2017, the Company recognized a net deferred tax asset of RON 157 million, resulting from tax losses carried forward.

Deferred tax assets are significant to our audit because of the magnitude of the balance sheet position as at 31 December 2017 and the fact that the estimation process requires management judgement to assess the recoverability of the balance, in particular by reference to evidence for sufficient forecasted

Our audit procedures focused on assessing the key management assumptions for the deferred tax asset recoverability, such as forecasts which underpin the asset recognition, including summaries of tax losses expiry dates. We evaluated the consistency of these forecasts with the long term business plans used by management to manage and monitor the performance of the business.

Our internal tax specialists were involved, as appropriate, in our audit procedures in the current taxation area and the effect of any

*taxable income against which tax losses can be utilised, some of which are expected to arise a number of years in the future.*

*relevant evaluations was taken into consideration in our assessment of the taxable profit projections.*

*Furthermore, we assessed the adequacy of the Company's disclosures regarding deferred tax assets.*

### **Completeness and appropriateness of provisions for litigations**

Rompetro Rafinare's disclosures about litigations are included in Note 25.

*The Company is involved in various and significant litigations, including in relation to regulatory and / or governmental proceedings, as well as investigations by tax authorities which are presented in Note 25 to the financial statements. This area is significant to our audit due to the inherent uncertainties over the final outcome of these litigations, complexity of the cases and the significant judgement applied by the management in estimating the final outcome of such assessments and exposures (i.e. whether a liability should be recognized or a contingency should be disclosed and whether the potential outflows can be reliably estimated).*

*Due to the significance and complexity of these litigations, adverse outcomes could potentially impact the Company's reported financial performance and financial position.*

*Our audit procedures included, among others, obtaining legal confirmations from the Company's external lawyers advising on these matters and supporting documentation from the Company's internal legal counsel regarding the status of these litigations. We have inspected the minutes of the Board of Directors' meetings and held periodic meetings with management to discuss and understand the developments in legal proceedings and the management assumptions and judgement in respect of these matters.*

*We assessed whether the opinions of external lawyers and internal legal counsel are consistent with the assumptions and estimates applied by management regarding recognition and measurement of provisions or measurement and disclosure of contingent liabilities in respect of these matters, based on the facts and circumstances available. Our internal specialists were involved, where appropriate, to assist us to analyse the legal cases and the assumptions made by management.*

*We further evaluated the adequacy of disclosures regarding provisions recognised and contingencies resulting from legal proceedings.*

## Alte informatii *Other information*

Alte informatii includ Raportul administratorilor, dar nu includ situatiile financiare si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.  
*The other information comprises the Administrators' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.*

Opinia noastra de audit asupra situatiilor financiare nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.  
*Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.*

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

## Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Conducerea Societatii are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.  
*Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.*

La întocmirea situațiilor financiare, conducerea este responsabilă să evalueze abilitatea Societății de a-și desfășura activitatea conform principiului continuității activității și să prezinte, dacă este cazul, aspectele referitoare la continuitatea activității și folosirea principiului continuității activității, mai puțin în cazul în care conducerea intenționează să lichideze Societatea sau să înceteze activitatea sau nu are nicio alternativă reală decât să procedeze astfel.

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

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiară a Societății.

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

#### **Responsabilitățile auditorului pentru auditul situațiilor financiare**

##### *Auditor's Responsibilities for the Audit of the Financial Statements*

Obiectivele noastre constau în obținerea unei asigurări rezonabile privind măsura în care situațiile financiare, luate în ansamblu, nu conțin denaturări semnificative cauzate de eroare sau fraudă și de a emite un raport de audit care să includă opinia noastră. Asigurarea rezonabilă reprezintă un nivel ridicat de asigurare, însă nu este o garanție că un audit desfășurat în conformitate cu standardele ISA va detecta întotdeauna o denaturare semnificativă, dacă aceasta există. Denaturările pot fi cauzate fie de fraudă fie de eroare și sunt considerate semnificative dacă se poate preconiza, în mod rezonabil, ca acestea, atât la nivel individual sau luate în ansamblu, vor influența deciziile economice ale utilizatorilor luate în baza acestor situații financiare.

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

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

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

- ▶ *Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.*
- ▶ *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- ▶ *Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Societatii.*
- ▶ *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*
- ▶ *Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.*
- ▶ *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- ▶ *Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoielei semnificative privind capacitatea Societatii de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Societatea sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.*

- ▶ *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.*
- ▶ *Evaluăm prezentarea, structura și conținutul general al situațiilor financiare, inclusiv al prezentărilor de informații, și măsura în care situațiile financiare reflectă tranzacțiile și evenimentele de bază într-o manieră care realizează prezentarea fidelă.*
- ▶ *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

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

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

De asemenea, prezentăm persoanelor responsabile cu guvernanta o declarație cu privire la conformitatea noastră cu cerințele etice privind independența și le comunicăm toate relațiile și alte aspecte care pot fi considerate, în mod rezonabil, ca ar putea să ne afecteze independența și, unde este cazul, măsurile de siguranță aferente.

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

Dintre aspectele pe care le comunicăm persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanță în cadrul auditului asupra situațiilor financiare din perioada curentă și, prin urmare, reprezintă aspecte cheie de audit.

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

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

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

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

- a) in Raportul administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare la data de 31 decembrie 2017, atasate;
- b) Raportul administratorilor, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, Anexa 1, punctele 15-19;
- c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare intocmite la data de 31 decembrie 2017 cu privire la Societate si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in Raportul administratorilor.

*In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Administrators' Report, we have read the Administrators' Report and report that:*

- a) *in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2017;*
- b) *the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;*
- c) *based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2017, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.*

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

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

Am fost numiti auditori ai Societatii de catre Adunarea Generala a Actionarilor la data de 13 aprilie 2017 pentru a audita situatiile financiare ale exercitiului financiar incheiat la 31 decembrie 2017. Durata totala de misiune continua, inclusiv reinnoirile (prelungirea perioadei pentru care am fost numiti initial) si renumirile anterioare drept auditori a fost de 10 ani, acoperind exercitiile financiare incheiate la 31 decembrie 2008 pana la 31 decembrie 2017.  
*We were appointed as auditors of the Company by the General Meeting of Shareholders on April 13, 2017 to audit the financial statements for the financial year end December 31, 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 10 years, covering the financial periods end December 31, 2008 till December 31, 2017.*

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

Opinia noastra de audit asupra situatiilor financiare exprimata in acest raport este in concordanta cu raportul suplimentar adresat Comitetului de Audit al Societatii, pe care l-am emis in aceeasi data in care am emis si acest raport.  
*Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on the same date as the issue date of this report.*

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

Nu am furnizat Societatii servicii non-audit interzise mentionate la articolul 5 alineatul (1) din Regulamentul (UE) nr. 537/2014 al Parlamentului European si al Consiliului si ramanem independenti fata de Societate pe durata auditului.  
Nu am furnizat Societatii si entitatilor controlate de aceasta alte servicii decat cele de audit statutar si cele prezentate in raportul anual si in situatiile financiare.



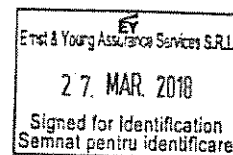
*No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.*

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

In numele,  
On behalf of,

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

Inregistrat la Camera Auditorilor Financiari din Romania  
Cu nr. 77/15 august 2001  
*Registered with the Chamber of Financial Auditors in Romania  
Nr. 77/15 August 2001*



Nume Auditor / Partener: Alexandru Lupea  
*Name of the Auditor/ Partner: Alexandru Lupea*  
Inregistrat la Camera Auditorilor Financiari din Romania  
Cu nr. 273 /5 ianuarie 2001  
*Registered with the Chamber of Financial Auditors in Romania  
No. 273 / 5 January 2001*

Bucuresti, Romania  
27 martie 2018  
*Bucharest, Romania  
27 March 2018*

**ROMPETROL RAFINARE S.A.**  
**Individual Financial Statements**

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

**As at 31 December 2017**

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**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF THE FINANCIAL POSITION**

As at 31 December 2017

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

	Notes	December 31, 2017	December 31, 2016
Intangible assets	3	14,618,988	16,724,850
Goodwill	4	152,720	152,720
Property, plant and equipment	5	3,680,205,350	3,018,053,823
Financial assets	6	1,629,020,055	1,629,020,055
Deferred tax asset	20	156,961,477	271,373,514
<b>Total non current assets</b>		<b>5,480,958,590</b>	<b>4,935,324,962</b>
Inventories, net	7	1,014,258,927	816,627,179
Receivables and prepayments, net	8	1,577,627,271	1,018,626,207
Derivative Financial Instruments	27	-	22,980
Cash and cash equivalents	9	22,863,280	45,891,549
<b>Total current assets</b>		<b>2,614,749,478</b>	<b>1,881,167,915</b>
<b>TOTAL ASSETS</b>		<b>8,095,708,068</b>	<b>6,816,492,877</b>
Subscribed share capital	10	4,410,920,573	4,410,920,573
Share premium	10	232,637,107	232,637,107
Revaluation reserves, net of deferred tax impact	10	600,663,192	-
Other reserves	10	3,424,144,892	3,169,670,514
Accumulated losses		(6,507,244,042)	(6,556,328,713)
Current year result		418,336,728	70,001,508
<b>Total equity</b>		<b>2,579,458,450</b>	<b>1,326,900,989</b>
Hybrid loan - long-term portion	10	57,155,251	-
Long-term borrowings from banks	13	-	281,763,783
Provisions	14	327,130,219	302,311,412
<b>Total non-current liabilities</b>		<b>384,285,470</b>	<b>584,075,195</b>
Trade and other payables	11	3,981,167,078	3,750,363,002
Derivatives	27	515,760	-
Short-term borrowings from affiliates	12	683,141,317	1,065,970,431
Short-term borrowings from banks	12	467,139,993	89,183,260
<b>Total current liabilities</b>		<b>5,131,964,148</b>	<b>4,905,516,693</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,095,708,068</b>	<b>6,816,492,877</b>

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

CATALIN DUMITRU  
 President of the Board of Directors

VASILE-GABRIEL MANOLE  
 Chief Financial Officer

YEDIL UTEKOV  
 Chief Executive Officer

Prepared by (Chief Accountant)  
 Alexandru Cornel Anton

**ROMPETROL RAFINARE S.A.**  
**PROFIT AND LOSS STATEMENT**  
for financial year ending on 31 December 2017  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Net revenues	15	11,192,755,314	8,774,321,849
Cost of sales	16	(10,628,344,179)	(8,272,314,522)
<b>Gross profit</b>		<b><u>564,411,135</u></b>	<b><u>502,007,327</u></b>
Selling, general and administrative expenses	17	(277,870,892)	(215,517,308)
Other operating expenses	18	(74,414,144)	(78,217,945)
Other operating income		11,235,130	67,641,004
<b>Operating profit/ (loss)</b>		<b><u>223,361,229</u></b>	<b><u>275,913,078</u></b>
Financial expenses	19	(159,732,555)	(130,189,378)
Financial revenues	19	46,439,668	21,170,401
Net foreign exchange gains / (losses)	19	308,268,386	(140,228,024)
<b>Profit before income tax</b>		<b><u>418,336,728</u></b>	<b><u>26,666,077</u></b>
Deferred tax	20	-	43,335,431
<b>Net Profit</b>		<b><u>418,336,728</u></b>	<b><u>70,001,508</u></b>
<b>Earnings per share (bani/share)</b>	23	0.95	0.16

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

**CATALIN DUMITRU**  
President of the Board of Directors

**VASILE-GABRIEL MANOLE**  
Chief Financial Officer

**YEDIL UTEKOV**  
Chief Executive Officer

Prepared by (Chief Accountant)  
Alexandru Cornel Anton

**ROMPETROL RAFINARE S.A.**  
**OTHER ELEMENTS OF THE GLOBAL EARNINGS**  
**for financial exercise ending on 31 December 2017**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

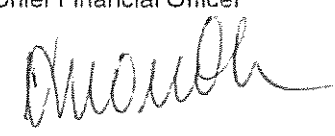
	<u>2017</u>	<u>2016</u>
<b>Net Profit / (Loss)</b>	<b>418,336,728</b>	<b>70,001,508</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified income statement in subsequent periods (net of tax):</i>		
Gains / (losses) from derivatives	(538,518)	22,758
<b>Total comprehensive income to be reclassified income statement in subsequent periods (net of tax):</b>	<b>(538,518)</b>	<b>22,758</b>
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</i>		
Actuarial gain / (losses) relating to retirement benefits	(1,078,366)	(6,448,613)
Revaluation of buildings category in property plant and equipment	715,075,229	-
Deferred tax on the revaluation reserve recognized on equity	(114,412,037)	-
<b>Total other comprehensive income not to be reclassified to income statement in subsequent periods (net of tax):</b>	<b>599,584,825</b>	<b>(6,448,613)</b>
<b>Total other comprehensive income for the year, net of tax</b>	<b>599,046,307</b>	<b>(6,425,855)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>1,017,383,035</b>	<b>63,575,653</b>

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

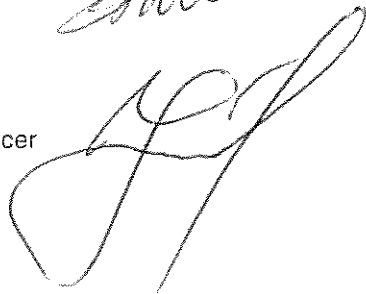
**CATALIN DUMITRU**  
 President of the Board of Directors



**VASILE-GABRIEL MANOLE**  
 Chief Financial Officer



**YEDIL UTEKOV**  
 Chief Executive Officer



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



**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF TREASURY FLOWS**  
for financial exercise ending on 31 December 2017  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

	December 31, 2017	December 31, 2016
<b>Net result before income tax</b>	<b>418,336,728</b>	<b>26,666,077</b>
<i>Adjustments for:</i>		
Depreciation and amortization	272,563,017	271,859,735
Provisions for receivables and inventories (incl write-off)	4,901,472	(20,097,808)
(Gain)/Loss on sale or disposal of property, plant and equipment	19,601,302	-
Provision for environmental liabilities and litigations	22,709,331	52,353,942
Restructuring and retirement benefit provisions	(1,031,110)	2,674,777
Expenses with penalties	588,140	143,494
Interest expenses	159,445,993	130,189,378
Interest income	(44,795,263)	(18,509,735)
Income from dividends	(1,578,251)	(2,121,569)
Losses/gains from derivatives	223	552
Unrealized foreign exchange (gain)/loss from restatement and monetary items	(220,697,048)	38,911,265
<b>Cash generated from operations before working capital changes</b>	<b>630,044,535</b>	<b>482,070,108</b>
<i>Net working capital changes in:</i>		
Receivables and prepayments	(478,890,542)	65,052,137
Inventories	(200,731,671)	(276,600,089)
Trade and other payables, including payables variation for capital expenditures	607,326,327	66,715,808
<b>Change in working capital</b>	<b>(72,295,886)</b>	<b>(144,832,144)</b>
Cash payments for derivatives, net	920,497	(187,054)
<b>Net cash provided by/(used in) operating activities</b>	<b>558,669,146</b>	<b>337,050,910</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(236,578,685)	(147,202,051)
Purchase of intangible assets	(556,070)	(6,565,876)
Dividends received	1,578,251	2,121,569
<b>Net cash used in investing activities</b>	<b>(235,556,504)</b>	<b>(151,646,358)</b>
<b>Cash flows from financing activities</b>		
Cash pooling	(77,424,484)	204,510,410
Short - term loans/ (repaid to) received from banks, net	126,828,980	(66,532,789)
Long - term loans received from banks	-	241,177,578
Long - term loans repaid to banks	-	(266,944,697)
Short - term loans (repaid to)/ received from shareholders and related parties	(236,099,414)	(7,258,932)
Interest and bank charges paid, net	(159,445,993)	(251,238,442)
<b>Net cash from financing activities</b>	<b>(346,140,911)</b>	<b>(146,286,872)</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>	<b>(23,028,269)</b>	<b>39,117,680</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>45,891,549</b>	<b>6,773,869</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>22,863,280</b>	<b>45,891,549</b>

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

**DUMITRU CATALIN**  
President of the Board of Directors

**YEDIL UTEKOV**  
Chief Executive Officer

**VASILE-GABRIEL MANOLE**  
Chief Financial Officer

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

**ROMPETROL RAFINARE S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**As at 31 December 2017 and 31 December 2016**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

	Share capital	Share premium	Accumulated losses	Revaluation reserves	Deferred tax on the revaluation reserve	Other reserves	Total equity
1st of January 2016	4,410,920,573	232,637,107	(6,552,828,638)	-	-	3,172,596,294	1,263,325,336
Net profit for year 2016	-	-	70,001,508	-	-	-	70,001,508
Actuarial gain/losses related to retirement benefits	-	-	-	-	-	(6,448,613)	(6,448,613)
Gains/losses related to derivative financial instruments	-	-	-	-	-	22,758	22,758
Total other comprehensive income for 2016	-	-	70,001,508	-	-	(6,425,855)	(6,425,855)
Total comprehensive income for 2016	-	-	(3,500,075)	-	-	3,500,075	-
Transfer to legal reserves	-	-	(6,486,327,205)	-	-	3,169,670,514	1,326,900,989
1st of January 2017	4,410,920,573	232,637,107	418,336,728	-	-	-	418,336,728
Net profit for year 2017	-	-	-	-	-	235,174,426	235,174,426
Reserves - Hybrid loan	-	-	-	715,075,229	-	-	715,075,229
Revaluation reserves	-	-	-	-	(114,412,037)	-	(114,412,037)
Deferred tax on the revaluation reserve	-	-	-	-	-	(1,078,366)	(1,078,366)
Actuarial gain/losses related to retirement benefits	-	-	-	-	-	(538,518)	(538,518)
Gains/losses related to derivative financial instruments	-	-	-	715,075,229	(114,412,037)	(1,616,884)	599,046,307
Total other comprehensive income for 2017	-	-	418,336,728	715,075,229	(114,412,037)	(1,616,884)	1,017,383,035
Total comprehensive income for 2017	-	-	(20,916,836)	-	-	20,916,836	-
Transfer to legal reserves	-	-	(6,088,907,313)	715,075,229	(114,412,037)	3,424,144,892	2,579,458,450
31st of December 2017	4,410,920,573	232,637,107	-	-	-	-	-

The financial statements were approved on March 22, 2018 and submitted for approval by the General Assembly of Shareholders on April 27, 2018 by:

**CATALIN DUMITRU**  
 President of the Board of Directors

**VASILE-GABRIEL MANOLE**  
 Chief Financial Officer

**YEDIL UTEKOV**  
 Chief Executive Officer

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

## **1. GENERAL**

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

Romp petrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 31 December 2017 is 1,157, respectively 1,077 as at 31 December 2016.

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

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

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

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

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

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

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

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

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

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

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



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

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

The financial statements of the Company are prepared on a going concern basis. As at 31 December 2017 and 31 December 2016, the Company reported net assets amounted to RON 2,579 million and RON 1,327 million respectively. For the exercise ended as at 31 December 2017 and 31 December 2016, the Company reported a profit of RON 418.3 million, and of RON 70 million respectively. The accumulated losses incurred in the past are due to the fact that the Company has been affected by the specific of the refining activity, characterized by a significant volatility and lower refinery margins in the past years, but considering that the massive investment trend of the last period combined with an improvement in market conditions the company has achieved and is aiming for future positive financial results which will decrease the cumulated loss recorded so far.

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

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

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

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

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

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

1. In November 2017 the company signed with KMG International NV a hybrid loan agreement in total amount of USD 72.2 million loan as a result of conversion of a commercial debt in front of KMG International NV (approximately RON 285.5 million as a result of assignment by Rompetrol Petrochemicals SRL in favor of KMG International NV of a commercial receivable held over the Company). The loan is unsecured, repayable after 51 years, subordinated to any present and future liability of the company and the interest it is computed and becomes payable if certain legal conditions and of profitability are met. In accounting terms the present loan was treated as capital item and booked in the Company's accounting record in the "Other reserves" account.

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

2. Starting December 31, 2017, the Company changed its accounting policies regarding the recognition and measurement of its non-current assets, in respect of buildings category, from cost model to the revalued one. The change from cost to revaluation model will provide a more transparent and up-to-date picture of the value of the Company's assets. Fair value of the buildings category was determined using the depreciated replacement cost method. The valuations have been performed by a specialized valuer. A net gain from the revaluation of the Company's buildings category of RON 695.5 million in 2017 was booked in company's records, being recognized in Revaluation reserves account a gain from revaluation of RON 715.08 million and a loss as a result of reevaluation in amount of RON 19.6 million recognized in expenses.

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

Considering the Company's plans for 2018, and other aspects above mentioned, it is considered that the preparation of the financial statements is based on the ongoing activity principle.

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

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 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**  
The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Company has no impact from application of this amendment.
- **IAS 7: Disclosure Initiative (Amendments)**  
The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Company has no impact from application of this amendment.
- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. None of these had a significant effect on the Company's financial statements:
  - **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

### **Revaluation of buildings category in property, plant and equipment**

Romp petrol Rafinare S.A. re-assessed its accounting for property, plant and equipment with respect to measurement of a certain class of property, plant and equipment after initial recognition. The Company had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

Starting December 31, 2017, the Company elected to change the method of accounting for buildings category classified as property, plant and equipment, because the Company believes that the revaluation model provides more relevant information to the users of its financial statements. The change from cost to revaluation method will provide a more transparent and up-to-date picture of the value of the Company's buildings, reflecting the economic reality upon which it operates. Historical cost was significantly below fair value due to changes in the real estate market in the period since the Company first adopted IFRS (15 years ago).

The Company applied the revaluation model prospectively. After initial recognition, buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to note 5.

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

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

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

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

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 as well as from further refinements of the impairment model which is currently being tested at the date of these financials. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Company will implement changes in classification of certain financial instruments.

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

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

#### **b) Hedge accounting**

The Company determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Company has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Company excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Company's financial statements.

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

### c) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12 month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined after assessment of major categories of trade receivables that the loss allowance will increase by USD 95k.

### • IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

### • IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company, but there is no significant effect identified until the reporting date.

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

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

The Company analyzed the main revenue streams which are comprised sales of crude oil, petroleum products and petrochemicals, under the main business segments: Downstream (retail and wholesale) and refinery, by applying the "five steps" model prescribed by IFRS 15:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Based on the results of review of contractual terms of principal types of contracts pertaining to each material revenue streams, the Company concluded that IFRS 15 will not have a significant impact compared with current revenue recognition.

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

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no material impact at Company level from application of this standard.

- *The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. None of these had a significant effect on the Company's financial statements:

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

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**  
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that there is no significant impact from application of this standard.
- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. None of these had a significant effect on the Company's financial statements:
  - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.
    - **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**  
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendment require entities to use audited actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management has assessed that there is no material impact at Group level from application of this standard.

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

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

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

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

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

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

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

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

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

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

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

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

Additional details on the provisions related to the environment-related obligations are set out in Note 14.

### **- Deferred tax assets**

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

Additional details on the deferred tax applicable to the corporate tax Note 20.

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

The Company assesses at each reporting date the requirement for an adjustment for impairment in trade and other receivables. The Company uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an adjustment. The adjustment is recognized where there is an objective evidence that a particular trade receivable or a group of trade receivables are impaired.

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

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

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

### **- Provision for litigations**

The Company analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing the litigation, the expected claim to be paid and the expected timing of the payments. Changes to these estimates could have a significant impact on the amount of the provision. Further details on the provisions relating to litigations are provided in Notes 14, 18, 25.

### **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*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

#### **Subsequent measurement**

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

- Financial assets at fair value through profit or loss
- Loans and receivables at amortized cost;
- Held-to-maturity investments, at amortized cost;
- Available-for-sale financial assets, at fair value with the changes recognized directly in equity;

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. 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 as defined by IAS 39. The Company has not designated any financial assets at fair value through profit or loss. 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.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR (effective interest rate) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.



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

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the 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

#### *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

### **Derecognition**

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

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

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

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

### *d. Impairment of financial assets*

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

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a Company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

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

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

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

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

Hence to changing of the accounting policy regarding recognition of buildings category from cost to revaluation method, also the economic remaining life utilization of the buildings were revaluated at December 31, 2017. The remaining life utilization were estimated by the specialized valuer based on ANEVAR's Assessment Guide GEV 500 (in concordance with normative act P135/2000 issued by INCERC). According to GEV 500 life utilization of buildings are up to 100 years. The depreciation of buildings category based on the revaluated remaining life utilization applies starting January 01, 2018.

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

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

### **h) Intangible assets**

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

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

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) Financial assets**

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

Further details on financial assets are provided in Note 6.

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

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

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

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

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

### **k) Provisions**

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

Provisions are not recognized for future operating losses.

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

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

Additional comments on the following specific liabilities are:

### **- *Decommissioning liability***

Decommissioning costs are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the income statement as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are added to or deducted from the cost of the assets

### **- *Environmental liabilities***

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

The Company has an environmental policy which complies with existing legislation and complies with 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 known future environmental requirements.

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

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

### **l) Inventories**

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

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

### **m) Receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators the receivable must be impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

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

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

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

### **o) Recognition of revenues**

Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and sales discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its concluded arrangements.

The following specific recognition criteria must be met before revenue is recognized, if the entity:

- has primary responsibility for providing the goods or services;
- has inventory risk;
- has discretion in establishing prices;
- bears the credit risk.

In addition:

- Sales of goods are recognized when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognized when services are rendered.
- Interest income is recognized on a time-portion basis using the effective interest method.
- Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

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

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

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

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.

### **q) Retirement benefit costs**

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

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

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

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

### **r) Taxes**

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

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

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

#### **- Deferred tax**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **s) Dividends**

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

### **t) Emission rights**

The Company refining and petrochemicals operations are allocated CO2 emission rights quota.

The Company accounts for the liability for these emissions using net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies.

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

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



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

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

Currency	<u>31 December 2017</u>	<u>31 December 2016</u>
RON/USD	3.8915	4.3033
RON/EUR	4.6597	4.5411

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

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

### v) Derivative financial instruments

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

The Company uses financial instruments (primarily futures, options and swaps) 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 the 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.

#### *Fair value hedge*

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

Hedge accounting is applied for the futures instruments. The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as Cost of Sales. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the inventory and is also recognised in the statement of profit or loss as Cost of Sales. If the hedged item is derecognized, the unamortized fair value is recognised immediately in profit or loss (see Note 16).

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.

#### *Cash Flow Hedge*

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

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

Hedge accounting is applied for the refinery margin Swap instruments. The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss (see Note 16).

### w) 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
<b>Cost</b>				
<b>Opening balance as of January 1, 2016</b>	<b>45,794,808</b>	<b>150,123</b>	-	<b>45,944,931</b>
Additions	124,494	-	6,441,382	6,565,876
Transfers*	49,548	-	-	49,548
<b>Closing balance as of December 31, 2016</b>	<b>45,968,850</b>	<b>150,123</b>	<b>6,441,382</b>	<b>52,560,355</b>
Additions	145,321	-	410,749	556,070
<b>Closing balance as of December 31, 2017</b>	<b>46,114,171</b>	<b>150,123</b>	<b>6,852,131</b>	<b>53,116,424</b>
<b>Accumulated amortization</b>				
<b>Opening balance as of January 1, 2016</b>	<b>(32,602,137)</b>	<b>(12,510)</b>	-	<b>(32,614,647)</b>
Charge for the year	(3,170,817)	(50,041)	-	(3,220,858)
<b>Closing balance as of December 31, 2016</b>	<b>(35,772,954)</b>	<b>(62,551)</b>	-	<b>(35,835,505)</b>
Charge for the year	(2,611,891)	(50,041)	-	(2,661,932)
<b>Closing balance as of December 31, 2017</b>	<b>(38,384,844)</b>	<b>(112,592)</b>	-	<b>(38,497,436)</b>
<b>Net book value</b>				
<b>As of December 31, 2016</b>	<b>10,195,896</b>	<b>87,572</b>	<b>6,441,382</b>	<b>16,724,850</b>
<b>As of December 31, 2017</b>	<b>7,729,326</b>	<b>37,531</b>	<b>6,852,131</b>	<b>14,618,988</b>

*\*) 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.

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 December 2017**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**4. GOODWILL**

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

**5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Plant and equipment	Furniture and others	Construction in progress	Total
<i>Cost or valuation</i>						
<b>As of January 1, 2016</b>	<b>192,480,007</b>	<b>1,853,605,669</b>	<b>3,339,766,162</b>	<b>12,154,340</b>	<b>65,133,760</b>	<b>5,463,139,938</b>
Acquisitions	-	-	3,108,595	88,411	144,005,046	147,202,051
Transfers from CIP	-	13,395,972	33,766,626	4,564	(47,167,162)	-
Disposals	-	-	(27,786,401)	-	-	(27,786,401)
Transfers and reclassifications*	-	-	3,467	-	(53,917)	(50,450)
<b>As of December 31, 2016</b>	<b>192,480,007</b>	<b>1,867,001,642</b>	<b>3,348,858,449</b>	<b>12,247,315</b>	<b>161,917,727</b>	<b>5,582,505,139</b>
Acquisitions	-	7,951	2,776,519	47,169	233,753,224	236,584,863
Revaluation	-	695,473,926	-	-	-	695,473,926
Transfers from CIP	-	43,931,192	162,717,589	4,095,408	(210,750,367)	(6,178)
Transfers and reclassifications*	-	(981,048,534)	-	-	-	(981,048,534)
<b>As of December 31, 2017</b>	<b>192,480,007</b>	<b>1,625,366,178</b>	<b>3,514,352,557</b>	<b>16,389,891</b>	<b>184,920,584</b>	<b>5,533,509,217</b>
<i>Accumulated depreciation &amp; Impairment</i>						
<b>As of January 1, 2016</b>	<b>(22,220,959)</b>	<b>(877,386,099)</b>	<b>(1,415,332,935)</b>	<b>(5,483,894)</b>	<b>(3,171,485)</b>	<b>(2,323,595,372)</b>
Charge for the year	(1,839,934)	(50,129,586)	(216,008,646)	(660,711)	-	(268,638,878)
Accumulated depreciation of disposals	-	-	27,786,401	-	-	27,786,401
Transfers and reclassifications*	-	-	(3,467)	-	-	(3,467)
<b>As of December 31, 2016</b>	<b>(24,060,893)</b>	<b>(927,515,686)</b>	<b>(1,603,558,648)</b>	<b>(6,144,605)</b>	<b>(3,171,485)</b>	<b>(2,564,451,316)</b>
Charge for the year	(1,839,934)	(53,574,511)	(213,631,668)	(854,973)	-	(269,901,085)
Transfers and reclassifications*	-	981,048,534	-	-	-	981,048,534
<b>As of December 31, 2017</b>	<b>(25,900,827)</b>	<b>(41,662)</b>	<b>(1,817,190,315)</b>	<b>(6,999,577)</b>	<b>(3,171,485)</b>	<b>(1,853,303,867)</b>
<b>Net book value as of December 31, 2016</b>	<b>(27,740,762)</b>	<b>927,432,361</b>	<b>1,745,299,801</b>	<b>6,102,710</b>	<b>158,746,242</b>	<b>3,018,053,823</b>
<b>Net book value as of December 31, 2017</b>	<b>166,579,179</b>	<b>1,625,324,515</b>	<b>1,697,162,242</b>	<b>9,390,314</b>	<b>181,749,099</b>	<b>3,680,205,350</b>

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

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

**- Impairment**

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

**- Construction in progress**

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

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

In 2017 the main projects remaining in construction in progress refers to the Tank rehabilitation amounting to RON 30.3 million, ISCIR authorizations amounting to RON 31.7 million, HDPE Unit restart amounting to RON 16.5 million and Refinery specific optimization programs amounting to RON 53.3 million in respect of Rompetrol Rafinare SA. Regarding the HDPE plant, with the support and decision of the majority shareholder, the company started at the end of last year the mechanical and organizational works for bringing this plant to operation. At the time of preparation of the financial statements, the mechanical works are completed, the restarting technological tests being carried out at these times (March 2018). In the near future, depending on the appropriate market moment, the effective operational start of HDPE installation will take place. The net book value (NBV) of HDPE installation is in amount of RON 82.6 million at 31.12.2017.

In 2016 out of the Company total acquisitions for construction in progress the most significant refers to the following projects: Refinery specific optimization programs amounting to RON 31.5 million, ISCIR authorizations amounting to RON 21 million, Tank rehabilitation amounting to RON 17.4 million and Refinery 2017 turnaround amounting to RON 12.6 million.

In 2016 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to RON 32.6 million, ISCIR authorizations amounting to RON 21 million, Refinery 2016 specific optimization programs amounting to RON 24.15 million and Refinery 2017 turnaround amounting to RON 12.4 million. Part of these projects have been transferred to other property, plant and equipment categories.

### **- Disposal**

No asset disposals were recorded in 2017.

In 2016, the amount of RON 27.8 million disposed assets, refers to replacement of used catalysts for MHC unit (Mild hydrocracking).

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

The Company finances its activities inclusively through loans and the cost of debt for the acquisition of assets is capitalized in the cost of the asset, when specific loans have been obtained (investment). In the year ended as at 31 December 2017 the interest was not capitalized.

### **- Revaluation of buildings category**

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

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

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

Reconciliation of carrying amount

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

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

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

	<b>2017</b>
	<b>million RON</b>
Cost	1911
Accumulated depreciation and impairment	(981)
<b>Net carrying amount</b>	<b>930</b>

**- Fixed assets pledged**

The company pledged assets net amounting to RON 1,135,075,542 (2016: RON 984,474,779), as follows:

- guarantees in favor of banks: RON 864,851,354 (2016: RON 720,649,301);
- guarantees in favor of ANAF: RON 270,224,188 (2016: RON 263,825,478).

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

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

According with the Memorandum of Understanding signed with the Romanian State and approved by Government Decision no. 35/2014, ANAF should remove and revoke the distraint established on 10 September 2010.

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. Also, on the same date, the movable and immovable assets of Rompetrol Rafinare SA, as well as all the participations in companies across the country, were distrained.

On December 31<sup>st</sup>, 2017 no enforcement process has been made.

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

### IMPAIRMENT TEST

Impairment tests have been performed by the Company for the carrying value of goodwill and property plant and equipment as of 31 December 2017 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2017 the net book value of property plant and equipment for the cash generating units is the following Refining 3,170 million RON, Petrochemicals 337 million RON.

#### *Refining*

Refining CGU includes the operations of Petromidia Refinery and Vega Refinery. The recoverable amount of Refining CGU unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016: 9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

#### *Petrochemicals*

Petrochemicals CGU includes the petrochemical business of the group, which is included within Rompetrol Rafinare legal entity; the unit is involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9.0% (2016:9.6%) and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.5% (2016: 8.1%).

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

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

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Rompetrol Refinery	2.8%	5.8%	5.6%	6.2%	5.3%
Petrochemicals	-2.9%	-0.1%	-0.8%	0.6%	1.1%

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 that it is very unlikely that changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

#### *Rompetrol Refinery*

The break-even point for the current model is achieved under a decrease of 59.1% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	1.1%	2.4%	2.3%	2.5%	2.2%

#### *Petrochemicals*

The break-even point for the current model is achieved under a decrease of 39.5% of Operating profit, reaching the following Operating profit margins:

	2018	2019	2020	2021	2022
Operating profit margin	-	-	-	0.3%	0.7%

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

## 6. FINANCIAL ASSETS

	31 December 2017	31 December 2016
Investments in subsidiaries	1,629,020,055	1,629,020,055
<b>Total</b>	<b>1,629,020,055</b>	<b>1,629,020,055</b>

### Investments in subsidiaries

Details regarding subsidiaries at 31 December 2017 and 31 December 2016 are as follows:

	Range of activity	Ownership at 31 December 2017	Ownership at 31 December 2016	Balance as at 31 December 2017	Balance as at 31 December 2016
Rompetrol Downstream S.R.L.	Fuel sales	99.99%	99.99%	1,090,406,067	1,090,406,067
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100.00%	100.00%	311,698,295	311,698,295
Rom Oil S.A.	Rental services	99.99%	99.99%	191,216,660	191,216,660
Rompetrol Logistics S.R.L.	Logistics operations	66.19%	66.19%	24,349,123	24,349,123
Rompetrol Quality Control S.R.L.	Quality Control Services for oil products	70.91%	70.91%	11,349,910	11,349,910
<b>Total of equity investments</b>				<b>1,629,020,055</b>	<b>1,629,020,055</b>

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

## 6. FINANCIAL ASSETS (continued)

At December 31, 2017, the Company's management conducted a review of the indicators of impairment of subsidiaries. Following this analysis, no impairment indicators were identified for any of the subsidiaries.

## 7. INVENTORIES, NET

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Crude oil and other feedstock materials	560,632,354	451,924,829
Finished products	294,460,794	209,334,771
Work in progress	127,069,512	120,977,712
Spare parts	52,960,693	52,567,514
Other consumables	21,541,544	21,539,603
Merchandises	1,254,210	869,809
Other inventories	3,543,028	3,516,225
Inventories reserve	(47,203,208)	(44,103,284)
<b>Total</b>	<b><u>1,014,258,927</u></b>	<b><u>816,627,179</u></b>

The inventories of finished goods comprise mainly petroleum products.

As at December 31, 2017 the Company has under pledge crude oil stocks and petroleum products amounting RON 543,675,803, respectively RON 357,697,328 la December 31, 2016.

The movement of the provision for inventories in year 2017 and in year 2016 is presented below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Reserve at the beginning of the year</b>	<b><u>(44,103,284)</u></b>	<b><u>(63,913,493)</u></b>
Accrued provision	(29,951,519)	(22,316,909)
Write off	-	(1,524,350)
Reversal provision inventories reserve	26,851,595	43,651,468
<b>Reserve at the end of the period</b>	<b><u>(47,203,208)</u></b>	<b><u>(44,103,284)</u></b>

The provisions for inventories represent provisions for the net realizable value.

## 8. TRADE AND OTHER RECEIVABLES, NET

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trade receivables	1,526,173,286	841,197,413
Advances to suppliers	11,392,740	21,079,937
Sundry debtors	26,811,309	119,152,205
VAT to be recovered	2,990,566	120,162
Other receivables	72,879,061	99,367,359
Reserve for bad and doubtful debts	(62,619,691)	(62,290,869)
<b>Total</b>	<b><u>1,577,627,271</u></b>	<b><u>1,018,626,207</u></b>

The balances with affiliated parties are presented in Note 22. The movement of provision is presented in Note 18.



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

As at 31 December 2017, the sundry debtors account included the following main items: RON 11.85 million for debts and related penalties paid to ANAF in reference to the fiscal inspection conducted for the years 2007-2010 (see note 25); RON 13.7 million in local taxes paid to the Navodari City Hall (in respect of revaluation of buildings; see note 25).

In other receivables it is included VAT receivable from members of the Fiscal Group (RON 14.47 million); receivables from the State Budget representing excise, energy products paid in advance by customers in States Budget excise revenue account (RON 55.94 million).

Trade receivables totaling RON 219 million at 31 December 2017, respectively totaling RON 328.5 million at 31 December 2016 are pledged in order to obtain credit facilities (see Note 12).

The movement of adjustments for depreciation of trade receivables is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Balance at the beginning of the year</b>	<b>(62,290,869)</b>	<b>(62,021,962)</b>
Impairment losses recognized on receivables	(2,081,781)	(157,280)
Impairment losses reversed	280,233	444,879
Translation differences	1,472,726	(556,506)
<b>Balance at the end of the period</b>	<b>(62,619,691)</b>	<b>(62,290,869)</b>

At 31 December 2017 the analysis of receivables maturity dates is as follows:

	<u>Total</u>	<u>Neither past due not impaired</u>	<u>Past due but not impaired</u>				
			<u>1-30 days</u>	<u>30-60 days</u>	<u>60-90 days</u>	<u>90-120 days</u>	<u>&gt;120 days</u>
31 December 2017	1,470,315,538	1,015,680,845	151,923,166	2,521,925	(134,983)	1,289,888	299,034,695
31 December 2016	784,442,261	402,052,072	29,648,971	18,436,822	109,070	35,318	334,160,008

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

At 31 December 2017, the trade receivables at the initial value of RON 55.86 million (2016 RON 56.75 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	<b>Collectively impaired</b>
<b>At January 1, 2016</b>	<b>(56,486,246)</b>
Value adjustments for impairment of receivables	(157,280)
Reversed provisions	444,879
Exchange rate difference	(556,506)
<b>At December 31, 2016</b>	<b>(56,755,153)</b>
Value adjustments for impairment of receivables	(855,554)
Reversed provisions	280,233
Exchange rate difference	1,472,726
<b>At December 31, 2017</b>	<b>(55,857,748)</b>

## 9. CASH AND CASH EQUIVALENTS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash at bank	22,394,325	44,732,891
Cash on hand	7,605	2,273
Transitory amounts	3,940	861,470
Other cash equivalents	457,410	294,915
<b>Total</b>	<b><u>22,863,280</u></b>	<b><u>45,891,549</u></b>

Other treasury values represent in the greatest part checks to be cashed.

## 10. OWN CAPITALS

### 10.1 SHARE CAPITAL

As at 31 December 2017 and 31 December 2016, the share capital consists in 44,109,205,726 ordinary shares, authorized, wholly issued and paid up, with a nominal value of RON 0.1 per each share.

The shareholder structure at 31 December 2017 and 31 December 2016.

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

The total value of the Company's share capital remained unchanged in year 2017 and in year 2016.

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

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

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

### 10.2 SHARE PREMIUM

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

## 10. OWN CAPITALS (continued)

### 10.3. LEGAL RESERVE

Out of the 2017 realized profit, the Company distributed to legal reserves RON 20,916,836, the rest of the profit being used for covering losses carried forward, according to the note presented below:

#### Profit Sharing

Scope	Amount
Net profit to distribute, out of which for:	418,336,728
Legal reserve	20,916,836
Coverage of losses from previous years	397,419,892

### 10.4 REVALUATION RESERVES

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

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

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

### 10.5 OTHER RESERVES

#### Hybrid Loan

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

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

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

## 10. OWN CAPITALS (continued)

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

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

Also, in 2017 it was carried on and recognized a liability for the potential interest on the hybrid loan in amount of RON 57.2 million, based on the projected profitability of the business for the period remained until reimbursement of the hybrid loan.

During 2017 unrealized derivative gains and gains/losses related to retirement benefits were booked in Other Reserves as follows:

	<u>2017</u>	<u>2016</u>
Actuarial gain/(losses) related to retirement benefits	(1,078,366)	(6,448,613)
Gains/(losses) related to derivative financial instruments	(538,518)	22,758
<b>Total</b>	<b><u>(1,616,884)</u></b>	<b><u>(6,425,855)</u></b>

## 11. COMMERCIAL LIABILITIES AND OTHER LIABILITIES

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trade payables	3,281,800,731	3,155,920,002
Advances from customers	77,495,051	85,097,092
VAT payable	130,526,638	117,191,493
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	(1,180)	15,570
Employees and social obligations	14,343,553	8,129,681
Other liabilities	449,441,653	356,448,532
<b>Total</b>	<b><u>3,981,167,078</u></b>	<b><u>3,750,363,002</u></b>

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

The cash pooling debt amounts to RON 410.71 million (2016: RON 333.63 million) and is recognised in "other debts".

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 December 2017**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**12. SHORT-TERM LOANS**

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>KMG International N.V.</b>	494,663,734	843,734,704
Short-term credit facility for working capital needs, amounting to a maximum of USD 250 million, USD 50 million due on December 31, 2018 and USD 200 million refunded upon request; guarantees: assignment of receivables, pledge on holdings in Rompetrol Logistics, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil; pledge on bank accounts. The undrawn amount as at December 31, 2017 is in amount of USD 122.89 million.		
<b>Rompetrol Well Services SA</b>	13,000,000	13,000,000
Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - January 10, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	7,000,000	7,000,000
Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - January 14, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	3,100,000	3,100,000
Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - January 3, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Rompetrol Well Services SA</b>	11,200,000	11,200,000
Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - February 28, 2018. The loan is secured with a promissory note covering the debt. The facility has been fully used.		
<b>Midia Marine Terminal SRL</b>	27,211,100	30,123,100
Short-term facility for working capital needs in amount of RON 27.211 million (through conversion of the loan in value of USD 7 million at NBR exchange rate communicated at July 31, 2017), maturity date December 31, 2018. The facility has been fully used.		
<b>Rompetrol Financial Group SRL</b>	115,000,000	115,000,000
Short-term facility for working capital needs in amount of USD 29.215 million, maturity date December 31, 2018. The facility has been fully used.		
Interest due	11,966,483	42,812,627
	<u>683,141,317</u>	<u>1,065,970,431</u>

**Short-term loan from banks**

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Bancpost</b>	31,530,791	88,838,025
Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m <sup>2</sup> ; assignment of rights from insurance compensation.		
<b>Bancpost</b>	-	10
Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 31 July 2018; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG I; assignment of rights from insurance compensation; rank mortgage on installations: HDV = EUR 9.3 million; DAV = EUR 14,3 million; DGRS = EUR 7.3 million; AFPE = EUR 16.08 million; GA (G1 + G3) = EUR 5.2 million; ON202 = EUR 5.7 million; warranty on land and buildings - EUR 181,000; warranty on the equipment; pledge on movable production assets EUR 10.9 million.		
Interest due	271,981	345,226
	<u>31,802,772</u>	<u>89,183,261</u>

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

	31 December 2017	31 December 2016
Syndicated loan – through Unicredit Bank as payer agent	435,337,221	-
<b>TOTAL</b>	<u>467,139,993</u>	<u>89,183,260</u>

All the financial covenants applicable were complied with as of December 31, 2017.

All loans are interest bearing and the weighted average interest rates per currency are the following: EUR 2.97% (2016: 2.98%), RON 5.38% (2016: 4.2%) and USD 4.32% (2016: 3.17%).

The loans bearing guarantees are secured with pledges on property plant and equipment RON 683.3 million (2016: RON 720.7 million), inventories RON 543.7 million (2016: RON 357.7 million) and trade receivables RON 219 million (2016: RON 328.5 million).

**13. LONG-TERM LOANS**

	31 December 2017	31 December 2016
Syndicated loan – through Unicredit Bank as payer agent		
Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompetro Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 2018. The following mortgages are set up to secure the loan: a) the credit balances of all current accounts present and future; b) the rights of insurance compensation; c) inventories (Propylene, Ethylene, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% of the debts assigned to notify the clients.	-	281,763,783
<b>TOTAL</b>	<u>-</u>	<u>281,763,783</u>

At the end of 2017 the long-term credit no longer records balance due to the reclassification of the amounts from the Syndicated loan in the short-term loan, taking into account that on 31.12.2017 the maturity term (April 23, 2018) is less than 1 year.

The movement of loans in 2017 is presented below:

	At January 01, 2017	Movement	At December 31, 2017
Long-term borrowings from banks	281,763,783	(281,763,783)	-
Short-term borrowings from banks	88,838,035	378,029,978	466,868,013
Short-term borrowings from shareholders and related parties	1,023,157,804	(351,982,969)	671,174,834
<b>Total</b>	<u>1,393,759,621</u>	<u>(255,716,774)</u>	<u>1,138,042,847</u>
Interest short-term borrowings from banks	345,226	(73,245)	271,981
Interest short-term borrowings from shareholders and related parties	42,812,627	(30,846,144)	11,966,483
<b>Total</b>	<u>43,157,853</u>	<u>(30,919,389)</u>	<u>12,238,464</u>

**14. PROVISIONS**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Non - current provision	327,130,219	302,311,412
<b>Total</b>	<b><u>327,130,219</u></b>	<b><u>302,311,412</u></b>

The movement of the provisions is presented below:

	<u>As at January 1, 2017</u>	<u>Other comprehensive income</u>	<u>Arising during the year</u>	<u>Utilized</u>	<u>As at December 31, 2017</u>
Retirement benefit provision	29,955,509	1,078,366	1,695,786	(664,676)	32,064,985
Provision fiscal	-	-	13,654,238	-	13,654,238
Environmental provision	272,355,903	-	9,055,093	-	281,410,996
<b>Total</b>	<b><u>302,311,412</u></b>	<b><u>1,078,366</u></b>	<b><u>24,405,118</u></b>	<b><u>(664,676)</u></b>	<b><u>327,130,219</u></b>

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

During 2012, an evaluation report was issued by an independent expert, evaluation report estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 5 year period, a discounted cash flow cost estimate of RON 272 million has been provided by the Company as of the end of 2016, for which the Company booked a provision.

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

Currently, the prequalification stage is in progress and considering the further bidding process and final contract negotiation, works are expected to start during the second quarter of 2018.

Following the ending in December 2017 of the general fiscal audit initiated and performed by ANAF - DGAMC started in October 2016 referring to the fiscal period 2011- 2015, the Company booked a fiscal provision in amount of RON 13.65 million based on the findings and additional tax charges for the period concerned.

Retirement obligations provision - Under the collective labor agreements in force, employees are entitled to certain benefits that are payable on retirement, if the employees are employed with the entities at the date of their retirement. These amounts are estimated as of the reporting date based on: the specific benefits provided in the agreement, the number of employees working within the company at date and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 4.52% in 2017 (2016: 3.49%), with an expected rate of long-term salary increase of 3.46% in 2017 (2.23% in 2016).

**14. PROVISIONS (continued)**

Amounts recognized in profit or loss in respect of this obligation are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Interest on obligation	286,562	355,727
Service cost	1,409,224	1,453,055
Benefits paid (due to restructuring/pension)	(664,676)	(4,483,559)
<b>Total</b>	<b><u>1,031,110</u></b>	<b><u>(2,674,777)</u></b>

Amounts recognized in profit or loss in respect of this obligation are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Opening balance</b>	<b><u>29,955,509</u></b>	<b><u>26,181,673</u></b>
<b>Amounts recognized in profit or loss</b>	<b><u>1,031,110</u></b>	<b><u>(2,674,777)</u></b>
Changes in assumptions (amounts recognized in OCI)	1,078,366	6,448,613
<b>Closing balance</b>	<b><u>32,064,985</u></b>	<b><u>29,955,509</u></b>

The charge for the year is included in the salaries expenses, respectively in the interest related to the profit and loss account,

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

**15. REVENUES**

	<u>2017</u>	<u>2016</u>
Gross revenues from the sale of finished oil products	14,727,580,720	12,478,833,569
Revenues from petroleum products trading	11,120,556	-
Revenues from petrochemicals trading	6,355,935	3,269,485
Revenues from other merchandise sales	13,821,038	10,579,090
Revenues from utilities sold	7,915,850	7,744,388
Revenues from the sale other products	979,801	626,411
Revenues from rents and other services	13,892,564	13,954,205
<b>Gross Revenues</b>	<b><u>14,781,666,464</u></b>	<b><u>12,515,007,148</u></b>
Less sales taxes	(3,588,911,150)	(3,740,685,299)
<b>Total</b>	<b><u>11,192,755,314</u></b>	<b><u>8,774,321,849</u></b>

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



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**16. COST OF SALES**

	<u>2017</u>	<u>2016</u>
Crude oil and other raw materials	9,783,827,276	7,495,305,590
Consumables and other materials	62,390,005	59,379,490
Utilities	338,134,378	325,316,249
Staff costs	86,384,539	84,592,581
Transportation	99,572	120,082
Maintenance	88,153,363	82,889,768
Insurance	6,006,896	6,735,763
Environmental expenses	4,045,475	4,195,675
Other	46,296,909	64,757,322
<b>Cash production cost</b>	<b><u>10,415,338,413</u></b>	<b><u>8,123,292,520</u></b>
Depreciation and amortization	231,655,406	238,470,471
<b>Production costs</b>	<b><u>10,646,993,819</u></b>	<b><u>8,361,762,991</u></b>
Less: Change in inventories	(87,431,116)	(94,215,657)
Less: Own production of property, plant & equipment	(7,587,798)	(5,435,767)
Cost of petroleum products trading	11,090,945	-
Cost of petrochemicals trading	6,675,732	3,617,506
Cost of other merchandise sales	14,204,355	1,503,243
Cost of utilities sold	6,131,283	5,792,886
Realised (gains)/losses on derivatives	38,266,959	(710,680)
<b>Total</b>	<b><u>10,628,344,179</u></b>	<b><u>8,272,314,522</u></b>

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

In 2017, in other expenses are included costs for: inspections and quality control in amount of RON 18 million (2016: RON 18.4 million), IT and communications in amount of RON 8.4 million (2016: RON 8.9 million), local taxes in amount of RON 2.2 million (2016: RON 15.2 million), technical consulting in amount of RON 3.3 million (2016: RON 8.5 million), security, fire protection and other services in amount of RON 14.4 million (2016: RON 13.6 million).

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

	<u>2017</u>	<u>2016</u>
Staff costs	27,070,366	18,441,051
Utilities	7,920,640	6,535,476
Transportation	39,763,131	37,551,536
Professional and consulting fees	81,243,153	47,725,980
Consumables	1,891,058	1,238,469
Marketing	551,726	220,798
Taxes	3,326,557	5,659,655
Communications	69,903	68,328
Insurance	2,179,435	2,154,341
IT related expenditures	5,851,765	7,416,682
Environmental expenses	10,079,109	9,598,312
Maintenance	13,798,337	12,368,095
Fees and penalties	15,734,399	13,712,691
Other expenses	27,483,702	19,436,630
<b>Costs before depreciation</b>	<b><u>236,963,281</u></b>	<b><u>182,128,044</u></b>
Depreciation and amortization	40,907,611	33,389,264
<b>Total</b>	<b><u>277,870,892</u></b>	<b><u>215,517,308</u></b>

In the "Consultancy" category, the vast majority of expenditures are represented by spending on consultancy and management services from the group's specialized management companies, KMG Rompetrol SRL (KMGR) and KMG International NV (KMGI). Variations of 2017 vs. 2016 are derived from services rendered in 2017 by KMGR and KMGI, incurred by the company through the agreed contractual mechanism - increasing certain cost categories and salaries and performance bonuses (due to improvement in activity).

Also the auditor's fees were recognised in "Professional and consulting fees". The auditors' fees related to the audit of the stand-alone and consolidated financial statements are RON 689,636, the equivalent of EUR 148,000 (in 2016: RON 672,082, the equivalent of EUR 148,000).

18. OTHER OPERATING (INCOME) / EXPENSES, NET

	<u>2017</u>	<u>2016</u>
Provision for receivables, expense	2,081,781	157,280
Provision for inventories and write-off, expense	29,951,519	23,836,867
Other provisions	22,709,331	52,353,942
(Gain) / Loss from revaluation of non-current assets	19,601,302	-
Other expenses	70,211	1,869,856
<b>Other operating expenses</b>	<b><u>74,414,144</u></b>	<b><u>78,217,945</u></b>
Provision for receivables, income	(280,233)	(444,879)
Provision for inventories and write-off, income	(26,851,595)	(43,647,076)
Other income	15,896,698	(23,549,049)
<b>Other operating income</b>	<b><u>(11,235,130)</u></b>	<b><u>(67,641,004)</u></b>
<b>Total</b>	<b><u>63,179,014</u></b>	<b><u>10,576,941</u></b>

The line "Other provisions" includes the movement of environmental provision related to Vega refinery and of the provision related to the general tax audit (please see note 14)

**18. OTHER OPERATING (INCOME) / EXPENSES, NET (continued)**

In 2017 the movement for environmental provision in amount of RON 9.06 million includes update of new technical assumptions regarding the total value of the greening costs, the discount rate and the impact resulting from the exchange rate differences.

Following the ending in December 2017 of the general fiscal audit initiated by ANAF - DGAMC referring to the fiscal period 2011- 2015, the Company booked a fiscal provision in amount of RON 13.65 million based on the findings and additional tax charges for the period concerned.

Starting December 31, 2017, the Company changed its accounting policy regarding the recognition and measurement of its non-current assets, for buildings category, from cost model to the revalued one. A loss from the revaluation of the Company's buildings category of RON 19.6 million was recognized.

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

The movement of the provision for inventories in 2017 includes an additional provision set up as the difference between cost and the net realizable value for crude oil and petroleum products as at 31 December 2017, as the products were consumed or sold.

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

	<u>2017</u>	<u>2016</u>
<b>Finance cost</b>		
Interest expense from banks	15,681,006	13,815,069
Interest expense shareholders and related parties	75,918,355	65,161,725
Commission and other bank charges	68,133,194	51,212,584
	<u><b>159,732,555</b></u>	<u><b>130,189,378</b></u>
<b>Finance income</b>		
Interest income	(44,795,263)	(18,509,735)
Other financial income	(1,644,405)	(2,660,666)
	<u><b>(46,439,668)</b></u>	<u><b>(21,170,401)</b></u>
<b>Finance income/(cost) net</b>	<u><b>113,292,886</b></u>	<u><b>109,018,977</b></u>
Unrealized net foreign exchange losses/(gains)	(220,696,825)	39,450,842
Realized net foreign exchange losses/(gains)	(87,571,561)	100,777,182
<b>Foreign exchange (gain)/loss, net</b>	<u><b>(308,268,386)</b></u>	<u><b>140,228,024</b></u>
<b>Total</b>	<u><b>(194,975,500)</b></u>	<u><b>249,247,001</b></u>

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

## 20. INCOME TAX

The income tax rate was 16% in 2017 and 2016. In both years the Company booked fiscal losses.

As of 31 December 2016, the Company had the following total unused fiscal losses:

Entity	Fiscal loss 2017	Fiscal loss 2016
	Million RON	Million RON
Romp petrol Rafinare SA	<u>(1,923.6)</u>	<u>(2,451.8)</u>

Deferred tax assets for losses carried forward were recognized because, following completion of its modernization program, the Company has started to be profitable and reasonable forecasts indicate profitability will continue in the following years. The deferred tax asset was computed based on the schedule of losses expiry (presented below) and the Company's forecasted taxable profits. The taxable profits were derived from the Company's forecast operating profits, which were also used for impairment testing of PPE (see note 5), and adjusted to reach taxable result (e.g. adjusting for fiscal depreciation vs. accounting depreciation and average level of non-deductible expenses).

In 2017, Rompetrol Rafinare recorded fiscal profit, which partially offset the fiscal loss from years 2010 and 2011. Also, in 2017 the cumulative fiscal loss was diminished by RON 144 million, after the fiscal control, affecting the fiscal loss related to 2011-2015 period.

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

Entity Romp petrol Rafinare SA	Fiscal loss Million	Fiscal loss Expires in
	2011	123.66
	2012	317.09
	2013	385.18
	2014	710.35
	2015	375.11
	2016	12.20
	<u>1,923.59</u>	
		2018
		2019
		2020
		2021
		2022
		2023

### Reconciliation of comprehensive income with tax result

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

	2017	2016
<b>Accounting Net profit</b>	<u>418,336,728</u>	<u>70,001,508</u>
Addition: Non-deductible expenses	352,134,548	351,090,754
Less: Non-taxable income	(28,710,079)	(89,548,955)
Less: Non-fiscal depreciation	(337,055,123)	(340,244,476)
Deductible legal reserve	(20,916,836)	(3,500,075)
<b>Fiscal (Net loss)</b>	<u>383,789,238</u>	<u>(12,201,244)</u>
Reported fiscal loss	(2,307,374,419)	(2,439,620,238)
<b>Taxable base</b>	<u>(1,923,585,181)</u>	<u>(2,451,821,482)</u>
<b>Income tax (16%)</b>	-	-

**20. INCOME TAX (continued)**

In 2017 the following income was considered non-taxable when calculating tax loss:

- Tax provisions (income from reversal of provisions for which no deduction was allowed) RON 27.13 million;
- The dividends collected in amount of RON 1.58 million;

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

- Expenses with accounting depreciation, amounting to RON 272.56 million;
- Expenses with provisions an loss from revaluation, amounting RON 74.3 million;
- Fines, increases, and penalties amounting to RON 0.05 million;
- Other non-deductible expenses amounting to RON 0.3 million.

**DEFERRED TAX**

	<u>Balance at January 1, 2017</u>	<u>Charged to Profit &amp; loss</u>	<u>Charged to Equity</u>	<u>Balance at December 31, 2017</u>
<i>Temporary differences</i>				
<i>Asset/Liability</i>				
Property, plant and equipment	381,984,741	126,926,977	715,075,229	1,223,986,947
Provisions	(272,355,903)	(9,055,093)	-	(281,410,996)
Fiscal loss	(1,805,713,296)	(117,871,886)	-	(1,923,585,182)
<b>Total temporary differences (Asset)/Liability</b>	<b><u>(1,696,084,458)</u></b>	<b><u>-</u></b>	<b><u>715,075,229</u></b>	<b><u>(981,009,231)</u></b>
Property, plant and equipment	61,117,559	20,308,316	114,412,037	195,837,912
Provisions	(43,576,944)	(1,448,815)	-	(45,025,759)
Fiscal loss	(288,914,127)	(18,859,502)	-	(307,773,629)
<b>Deferred tax (assets)/liability recognised</b>	<b><u>(271,373,514)</u></b>	<b><u>-</u></b>	<b><u>114,412,037</u></b>	<b><u>(156,961,477)</u></b>

As of December 31, 2017 it was recognized a decrease of the deferred tax asset in amount of RON 114 million, computed for the revaluation surplus of buildings category, item that was recognized in the OCI.

## 20. INCOME TAX (continued)

### 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. In addition, the agencies conducting these controls appear to be subject to significantly less regulation and the company under review appears to have less practically safeguards than is customary in many countries.

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

## 21. OPERATING SEGMENT INFORMATION

### A. Business segments

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

#### 2017 Profit and loss statement

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

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

**2016 Profit and loss statement**

	<u>Refining</u>	<u>Petrochemicals</u>	<u>Total</u>
Net revenues	8,041,998,440	732,323,409	8,774,321,849
Cost of sales	(7,591,451,915)	(680,862,607)	(8,272,314,522)
<b>Gross profit</b>	<b>450,546,525</b>	<b>51,460,802</b>	<b>502,007,327</b>
Selling, general and administrative expenses	(186,243,781)	(29,273,527)	(215,517,308)
Other operating revenues / expenses, net	(10,576,941)	-	(10,576,941)
<b>Operating profit/ (loss)</b>	<b>253,725,803</b>	<b>22,187,275</b>	<b>275,913,078</b>
Financial cost	(130,189,378)	-	(130,189,378)
Financial income	21,170,401	-	21,170,401
Net foreign exchange gains / (losses)	(140,228,024)	-	(140,228,024)
<b>Profit/(loss) before income tax</b>	<b>4,478,802</b>	<b>22,187,275</b>	<b>26,666,077</b>
Deferred tax	43,335,431	-	43,335,431
<b>Net Profit / (Loss)</b>	<b>47,814,233</b>	<b>22,187,275</b>	<b>70,001,508</b>
<b>Depreciation and amortization</b>	<b>(218,784,270)</b>	<b>(53,075,465)</b>	<b>(271,859,735)</b>

In 2017 turnover of the Company are included clients that own more than 10% of the total sales, their value amounting to RON 7,566.6 million (2016: RON 5,973.7 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 chart provides an analysis of the net turnover of the Company depending on the geographical market:

	<u>2017</u>	<u>2016</u>
Romania	5,788,549,907	4,318,875,535
Europe	5,144,498,032	4,350,690,784
Asia	185,520,860	57,504,453
America	74,186,515	47,251,078
<b>Total</b>	<b>11,192,755,314</b>	<b>8,774,321,849</b>

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**22. RELATED PARTIES**

The ultimate parent of the Company is the company "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan, entirely owned by the Kazakh State. The related parties and the nature of relationship is presented below:

<b>Name of the affiliated entity</b>	<b>Nature of the relation</b>
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V
Rominserv S.R.L	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetro Well Services S.A.	Company held by KMG International N.V
Palplast S.A.	Company held by KMG International N.V
Rompetro Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetro Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal S.R.L.	Company held by KMG International N.V
Rompetro Financial Group S.R.L.	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping S.R.L.	Company held by KMG International N.V
Rompetro Albania Wholesale Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetro Ukraine LTD	Company held by KMG International N.V (KMG International N.V. owns 50%)
Rominserv Valves Iaifo SRL	Company held by KMG International N.V
KAZMUNAYGAS – Engineering LLP (former Rominserv Kazakhstan LLC)	Company held by KMG International N.V
Uzina Termoelectrica Midia S.A.	Company held by KMG International N.V (KMG International group holds: 43.42%)
Global Security System S.A.	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetro Downstream S.R.L.	Company affiliated to the Company
Rompetro Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Rompetro Logistics S.R.L.	Company affiliated to the Company
Rompetro Quality Control S.R.L.	Company affiliated to the Company
Rompetro Gas S.R.L.	Company held by KMG International N.V
Dyneff Espagna SLU	A company of Rompetrol France group, where KMG International N.V. owns 49%
DPPLN SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
TMP SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Dyneff Gas Stations Network SL	A company of Rompetrol France group, where KMG International N.V. owns 49%
Rompetro France SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DYNEFF TRADING SL (former Bioneff SL)	A company of Rompetrol France group, where KMG International N.V. owns 49%
Agat Ltd	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 50%)
Rompetro Albania Downstream Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetro Albania Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetro Distribution Albania Sh.A	Company held by KMG International N.V (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetro Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V
EPPLN SAS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 49%)
KazMunayGas Trading Singapore	Company held by KMG International N.V (in liquidation)
KMG Rompetrol Services Center SRL (former Rompetrol Exploration & Production SRL)	Company held by KMG International N.V
Rompetro Drilling	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
Bio Advanced Energy SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
Bio Advanced Energy PROD SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
DP FOS SA	A company of Rompetrol France group, where KMG International N.V. owns 49%
SPR SA	A company of Rompetrol France group, where KMG International N.V. owns 49%



**22. RELATED PARTIES (continued)**

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Outstanding balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the exercise ended at 31 December 2017, the Company did not record any depreciation of the receivables referring to the amounts due to the related parties (2016: zero). This assessment is performed every year, by analyzing the financial position of the related party and the market in which it is carrying on its activity.

At 31 December 2017 and 31 December 2016, Rompetrol Rafinare had the following balances with the related parties:

	<b>Receivables and other assets</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
KazMunayGas Trading AG	658,908,913	589,077,055
Rompetrol Downstream S.R.L.	586,070,373	9,332,185
Rompetrol Petrochemicals S.R.L.	1,657	4,872
KMG International N.V.	3,268,860	92,923,010
Rompetrol Gas SRL	10,047,709	2,953,984
Rompetrol Moldova ICS	-	-
Rompetrol Bulgaria JSC	3,111,148	5,914,904
Rominserv S.R.L.	3,672,459	20,549,377
Rompetrol Quality Control S.R.L.	129,968	141,275
Rompetrol Logistics S.R.L.	48,853	34,600
Midia Marine Terminal S.R.L.	1,040,455	1,381,413
Uzina Termoelectrica Midia S.A.	8,467,191	8,319,514
KMG Rompetrol SRL	7,555,392	3,270,515
Global Security Systems S.A.	606,637	606,680
Kazmunaygas – Engineering LLP (former Rominserv Kazakhstan(RKZ))	654,422	723,673
Palplast S.A.	5,340,002	5,340,002
Byron Shipping Ltd.	3,924	952
Rompetrol Ukraina	14,736	16,295
Oilfield Exploration Business Solutions S.A.	1,932,419	6,195,812
Rompetrol Financial Group SRL	10,340	10,309
KMG Rompetrol Services Center SRL	50,516	317,124
TRG Petrol Ticaret Anonim Sirketi	10,521,367	-
<b>Total</b>	<b>1,301,457,341</b>	<b>747,113,551</b>

The receivable balance in amount of RON 586 million as of December 31, 2017 held against Rompetrol Downstream SRL represents a receivable average balance according to contractual maturities of 30 days. The receivable balance held against the same company as of December 31, 2016 in value of RON 9.3 million was affected by accelerated payments made by Rompetrol Downstream SRL prior to contractual maturity on the background of available liquidities at the level of this company.

**22. RELATED PARTIES (continued)**

	<b>Payables, loans and other liabilities</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
KazMunayGas Trading AG	2,784,983,327	2,467,408,542
Rompetrol Downstream S.R.L	43,115,612	58,814,262
Rompetrol Petrochemicals S.R.L.	7,685,137	293,605,364
KMG International N.V.- loans(note12)	494,663,734	843,734,704
KMG International N.V.-interest	1,830,480	30,608,711
KMG International N.V.-trade debts	13,976,078	3,271,292
Rompetrol Gas SRL	2,744,523	3,080,054
Rompetrol Moldova ICS	14,231,107	3,522,833
Rominserv S.R.L.	121,931,041	105,032,421
Rompetrol Quality Control S.R.L.	17,245,271	16,455,923
Rompetrol Logistics S.R.L	905,223	715,201
Midia Marine Terminal S.R.L.- loans(note12)	27,211,100	30,123,100
Midia Marine Terminal S.R.L.-interest	4,896,117	3,999,220
Midia Marine Terminal S.R.L.-trade debts	142,234,826	118,619,878
Rompetrol Well Services S.A. - loans (note 12)	34,300,000	34,300,000
Rompetrol Well Services S.A.-interest	-	97,174
Uzina Termoelectrica Midia S.A.	14,154,735	12,571,780
KMG Rompetrol SRL- debt cash pooling	410,707,468	333,637,122
KMG Rompetrol SRL-interest cash pooling	1,328,165	713,459
KMG Rompetrol SRL-trade debts	32,002,902	4,564,787
Global Security Systems S.A.	1,406,484	974,287
Rompetrol Exploration & Production S.R.L.	66	66
Rompetrol Financial Group SRL - loans(note12)	115,000,000	115,000,000
Rompetrol Financial Group SRL-interest	5,239,886	8,107,522
KMG Rompetrol Services Center SRL	1,407,558	1,540,163
Rompetrol Bulgaria JSC	-	-
TRG Petrol Ticaret Anonim Sirketi	565	-
<b>Total</b>	<b>4,293,201,405</b>	<b>4,490,497,865</b>

The company concluded a Cash Pooling agreement for implementing a cash balance optimization system, in which KMG Rompetrol SRL is the "Coordinating company" and Rompetrol Rafinare SA is a participating company; maturity on 4 August 2018.

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For financial exercise ending on 31 December 2017**  
*(All amounts expressed in Lei ("RON"), unless otherwise specified)*

**22. RELATED PARTIES (continued)**

In 2017, respectively in 2016, Rompetrol Rafinare had the following transactions with the related parties:

Name of related party	Nature of transaction , sales / purchases	Sales		Purchases	
		2017	2016	2017	2016
KazMunayGas Trading AG	Raw materials / Petroleum products	3,596,692,762	3,074,000,899	9,239,499,472	7,775,995,804
Rompelrol Downstream S.R.L.	Petroleum products, rent, utilities and other	3,976,522,170	2,940,624,360	2,502,695	2,350,825
Rompelrol Petrochemicals S.R.L.	Rent, utilities and other	16,461	16,161	-	-
KMG International N.V.	Loan interest, management services	-	-	40,343,844	28,222,934
Rompelrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	363,426,078	226,361,595	156,034	122,429
Rompelrol Moldova ICS	Sales intermediary services	728,282,995	479,758,572	-	-
Rompelrol Bulgaria JSC	Sales intermediary services	70,100,696	90,761,404	462,673	-
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	2,457,032	2,449,842	326,731,573	405,875,398
Rompelrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	2,910,961	1,352,790	24,230,497	23,702,571
Rompelrol Logistics S.R.L.	Transport, rent/Rent, utilities	11,996	11,377	159,759	109,549
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, re invoicing, loan interest ,others	1,613,115	1,384,284	76,853,466	67,582,242
Rompelrol Well Services S.A.	Loan interest	-	-	1,438,982	1,351,412
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	63,719,869	55,866,290	111,213,549	85,220,940
KMG Rompetrol S.R.L.	Loan interest, management services	21,748,703	18,734,281	104,862,375	58,461,882
Global Security Systems S.A.	Security and protection services	1,452	-	10,503,969	9,528,305
Byron Shipping S.R.L.	Demurrage /Rent, reinvoices of other services	36,621	37,372	69,652	24,143
Rompelrol Financial Group SRL	Loan interest	-	-	4,792,944	3,348,793
Romolil S.A.	Reinvoicing bank loan fees	-	-	-	585,968
KMG Rompetrol Services Center SRL	Shared services	521,953	264,270	14,815,333	-
TRG Petrol Trecaret Anonim Sirketi	Petroleum products	102,508,917	-	80	-
		<b>8,930,571,781</b>	<b>6,891,623,497</b>	<b>9,958,636,899</b>	<b>8,462,483,195</b>

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

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

The salaries paid to the Company directors in 2017 were RON 761,473 (RON 765,299 in 2016). The salaries and bonuses paid to the Company management in 2017 (in average 12 persons) was RON 2,931,739 (RON 2,955,160 in 2016, in average 13 persons).

### 23. EARNINGS PER SHARE

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

	<u>2017</u>	<u>2016</u>
Net profit (+), loss (-)	418,336,728	70,001,508
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (bani/share)	0.95	0.16

### 24. CONTINGENT LIABILITIES

- a) Related to the Company's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed that Rompetrol Rafinare S.A. haven't recorded income, to which D.G.F.P Constanta applied excise, VAT and related penalties totaling RON 47.7 million (USD 11.08 million) to be paid by the Company based on an inspection carried out in 2003. A suspension of the tax audit has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.). Also, the settlement of the administrative appeal has been suspended until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 25). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is considered remote.
- b) In 2001, the Company processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Company were challenged in front of the court by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Company cancelled such invoices. The Company is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Company liable for paying such excises; the Company appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P. Constanta is RON 9.5 million (USD 2.20 million). The management is confident that the likelihood of reversal of the earlier court decision is very little.
- c) The National Agency for Tax Administration started in October 2016 a general tax inspection covering the period 2011-2015 for: income tax, VAT fiscal group set up at the level of Rompetrol Rafinare S.A. (all entities from fiscal group were under fiscal control), withholding tax and excise.

Through the Assessment Decision (received in January 2018), there were imposed the following additional taxes: RON 26.1 million representing VAT fiscal group (out of which RON 13.1 million related to the entity Rompetrol Rafinare S.A.), withholding tax in amount of RON 6.5 million and decrease of fiscal loss with RON 144.4 million, both of the lasting related to the entity Rompetrol Rafinare S.A.. The accessories and penalties calculated to the additional charges, strictly related to the Company are in amount of RON 9 million. The principal additional taxes and related penalties were partially compensated with receivable taxes, the difference being paid in cash.

The tax assessment on VAT fiscal group was challenged on February 26, 2018. According to the Romanian Fiscal Procedure Code, the appeal shall be resolved within 45 days of the filing date. If the contestation is not solved within 6 months from the filing date, the contestant may address the competent administrative court for the annulment of the act.

In 2017, in respect of the above-mentioned tax inspection, a provision in amount of RON 13.65 million was booked in relation to Rompetrol Rafinare (see notes 18 and 20).

## 25. LEGAL MATTERS

### Litigation with the State involving criminal charges

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

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

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

Considering the above-mentioned charges, a freezing order were issued by DIICOT and received on 9-10 May 2016 (the "Orders"), whereby it was decided to impose a seizure (freezing of the assets) on the movable and immovable assets of KMG International N.V., Rompetrol Rafinare SA and Oilfield Exploration Business Solutions SA (former Rompetrol SA) as well as over the shares these companies held in their Romanian subsidiaries.

The freezing of the assets does not impact the inventories, receivables and the bank account of Rompetrol Rafinare and this allows to the company to continue normally the day by day operations.

Considering the nature of the allegations submitted by DIICOT, the companies KMG International NV, Rompetrol Rafinare SA si Oilfield Exploration Business Solutions SA filed more memories that responded to the accusations formulated by DIICOT. Up to date, no response from DIICOT regarding these memos has been received.

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

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

Taking into account DIICOT considerations regarding the alleged acts committed before 2007, when the National Company JSC KazMunayGas (KMG) acquired the majority of Rompetrol Group and are subject to File no. 225/2006, KMG and KMG International N.V. (KMGi) sent to the Romanian authorities on July 22, 2016 a Comprehensive Notice formulated on the basis of the treaties on the protection of investments - based on the agreement between the Romanian Government and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania the Energy Charter Treaty.

On October 20, 2016, the Ministry of Public Finance responded briefly to the KMG and KMGi Notification mentioned above.

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

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

On May 10, June 28 and July 21, 2017 the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivable, RRC privatisation and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), intra-companies transactions and budgetary taxes and duties.

On July 17, 2017 DIICOT issued an Ordinance which generally keeps the approach of the Orders issued in 2016 but let the civil parties namely, Ministry of Energy and Ministry of Finance, to provide the figures for the alleged damage they incurred as well as the evidences for supporting any alleged damage.

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

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

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

Both the Report and the Decision were challenged by Rompetrol Rafinare. The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27<sup>th</sup> of October 2014 by Constanta Court of Appeal which partially annulled both Decision and the Assessment Decision for payment of RON 48 million (equivalent of USD 15 million at historical rate).

Constanta Court of Appeal held liable the National Agency for Tax Administration for paying back Rompetrol Rafinare approximately RON 21 million (equivalent of USD 6.2 million at the historical rate) and to pursue to audit again for approximately RON 9.7 million (equivalent of USD 2.8 million).

This Decision was appealed by both Rompetrol Rafinare and National Agency for Tax Administration in front of the Supreme Court of Justice. On October 12, 2017, the Supreme Court has rejected both appeals, so the decision of the first instance remained unchanged.

The re-audit was initiated in February 2018 and it is in progress at the date of the Financial Statements.

### **Litigation regarding CO2 emission allowances.**

On February 28, 2011 Rompetrol Rafinare S.A. won the court case against The Romanian Government and The Ministry of Environment which required the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2,577,938 CO2 emission certificates for the entire period 2008-2012 (Decision 69/CA/2011). This first decision issued by the Constanta Court of Appeal was challenged by the Ministry of Environment and The Romanian Government, but the appeals were rejected by the Supreme Court of Justice on October 30, 2012 and the first court decision became final.

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020.

Considering that the Ministry of Environment and the Romanian Government did not fulfill the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of Euro 36 million. – File no. 917/36/2013.

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

On October 11<sup>th</sup>, 2017, the court joined this file with File no. 712/36/2015, which had the same object (damages) but amounted to Euro 40 million (in accordance with a valuation of the Ministry of Environment itself) and was based on some new entered into force legal provisions.

On July 28<sup>th</sup> 2015, the Government issued its Decision no. 611/2015, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 in accordance with the final court decision of October 30 2012 and increasing the allocation of the Company with the amount of 2,577,940 CO2 emission certificates; this decision should have been fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The EC approval was not delivered yet and the Government Decision has still not been effectively implemented up to this date.

The next hearing in the reunited Files 917/36/2013 and 712/36/2015 is on April 16, 2018. An expertise report was provided to the court in respect of the counter value of the certificates and following these proceedings a court decision will have to be issued accordingly. The counter value held by this recent expertise report is EUR 38.51 million.

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

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

- a) Against the Imposing Decision issued by Navodari City Hall, the company has been filed an administrative complaint with the fiscal authorities. The administrative complaint filed by RRC was dismissed as being lack of object, without any judgment pronounced on the merits of the case. Rompetrol Rafinare submitted in court the challenge against this decision. This judicial procedure was under court investigation proceedings with Constanta Court of Appeal who has completed judicial investigation into the case and delivered a sentence on March 16<sup>th</sup>, 2017, when the challenge submitted by Rompetrol Rafinare was rejected. The solution has been appealed by Rompetrol Rafinare. The appeal is in currently pending court investigation proceedings, and the first hearing term before the Supreme Court shall be scheduled later.
- b) Because the decision issued by Navodari City Hall of rejection the administrative complaint as being lack of object is based on Navodari Local Council Decision no.435/December 21, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalties, Rompetrol Rafinare submitted a second action for partial annulment of Navodari Local Council Decision no. 435/December 21<sup>st</sup>, 2015. This action was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Council on Constanta Court of Appeal, where the first hearing term was set on January 16<sup>th</sup>, 2017, when the appeal was rejected. The solution is final.
- c) Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defense was submitted by Navodari City Hall and the first hearing term was established for February 22<sup>nd</sup>, 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19<sup>th</sup>. 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the Supreme Court of Justice. The first hearing term before the Supreme Court is scheduled on March 22, 2018.

25. LEGAL MATTERS (continued)

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

In consideration of the violation by Compania Nationala Administratia Porturilor Maritime Constanta (*National Company of Constanta Maritime Ports Administration*) of the legal provisions regulating its activity, in the sense that it does not ensure the maintenance in operational parameters of the Midia port found under its administration, so as to ensure the safety of navigation, the preservation of at least the technical features designed for the port, the assurance of safe access and operation, the company initiated several legal remedies against it, as follows:

- a) Complaint against National Company "Administratia Porturilor Maritime" SA for violating the provisions of art. 9 of the Law no 21/1996 which caused to Rompetrol Rafinare SA damages consisting of USD 1.8 mil USD - dredging expenditures and 3.3 mil USD - commercial loss. The complaint leads to an investigation launched in April 2016 by the Competition Council. Competition Council is entitled to acknowledge the violation by Administrația Porturilor Maritime of the provisions of art. 9 of Law no. 21/1996, to sanction the said company in accordance with the law and to render it liable to perform, subject to legal terms and conditions, the obligations resting upon it as administrator of port areas and supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port.
- b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (0.8 mil USD) and for restitution of dredging expenses (USD 1.7 million). On May 19th, 2017, the Court partially admitted the claim of the plaintiff Rompetrol Rafinare SA against the defendant Constanta Port Administration and obliged the defendant to pay to the plaintiff:
  - The amount of EUR 1.57 million, representing dredging expenditures paid by Rompetrol Rafinare SA, during the period 30 April 2015 - 11 May 2015;
  - The amount of RON 0.079 million representing legal costs.

Both parties filed for appeal against the solution pronounced by first court. On December 27, 2017, Constanta Court of Appeal admitted the appeal filed by Constanta Port Administration, reject the appeal filed by Rompetrol Rafinare SA and changed the sentence pronounced by the first court, so all the claims of Rompetrol Rafinare against APMC have been rejected. Rompetrol Rafinare will submit the appeal within 30 days since the communication of the decision issued by Constanta Court of Appeal. The decision is not communicated yet.

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

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

The competent authorities have initiated investigations in order to establish the circumstances and the causes that generated the technical incident. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and being open file no. 586 /P/ 2016, within which have been questioned employees of the 2 companies and was administered technical expertise.

Following the completion of the criminal prosecution, Rompetrol Rafinare S.A., Rominserv SRL and four employees were put on trial for: the non-observance of the legal labor health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party.



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

By the final conclusion of Preliminary Chamber procedure, communicated to Rompetrol Rafinare on March 27, 2017 the court ordered, considering the fact that the prosecutor did not reply within procedural five days, to return the case to the Prosecutor's Office Court Appeal Constanta, finding relative nullity of the Ordinance no. 586 /P/2016, irregularity of the indictment, prosecutor failure to respond within procedural terms. The Prosecutor's Office Court Appeal Constanta made appeal.

On June 21, 2017 the Constanta County Court admitted the prosecutor's appeal and ordered the retrial of the case by Constanta Court with the observance of the legal dispositions on the summoning of the parties, namely the aggrieved persons and prosecutor. According with court decision of 2015 29, 2017, the file shall be sent back to the prosecutor office whereas it has been ascertained that ordinance no. 586/P/2016 and the subsequent Act of Indictment of the Prosecutor's Office by Constanta Court of Appeal are subject to relative nullity and that the object and limits of judgment cannot be established.

On the other hand, it was admitted the request filed by Rominserv for the plea of unconstitutionality of certain provisions to be settled further by the Constitutional Court. The respective provisions concern the possibility to rectify the document instituting court proceedings during the preliminary chamber procedure.

On January 17, 2018, the Constanta court dismissed the prosecutor appeal against the decision issued in preliminary chamber and therefore approached the companies defense reasoning. The ruling is final and the file shall be sent back to the Prosecutor's Office of Constanta to resume the criminal prosecution activities within the limits of the legality provisions.

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

Also, on May 25, 2017 Rompetrol Rafinare and Rominserv received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labor authority maintains the same considerations challenged by the companies. On August 16<sup>th</sup>, 2017 both Rompetrol Rafinare and Rominserv have received fines set by the Constanta Territorial Labor Inspectorate (in cumulated amount of RON 0.028 million). The minutes of the fine have been appealed by both parties involved. On December 14, 2017, the court has requested to Rompetrol Rafinare and to the Territorial Labor Inspectorate to send written specifications regarding optional suspension of the case, pending resolution of the criminal file. The court suspended the case until the criminal file will be solved.

### **Other litigations**

#### **Vega residual pools remediation project**

On November 15, 2017, Environmental National Guard (ENG) performed an inspection at Vega Refinery in order to determine the status of implementation of the Remedial Project.

Following the inspection, the Assessment Note no. 299 was issued, specifying that:

- on the same day the Company had to provide written information on the status of implementation of the Project;
- ENG would inform Prahova Environment Protection Agency (PEPA) immediately of Company's failure to comply with its obligations specified in the Environmental Integrated Authorization;
- a fine of 100,000 RON would be applied for Company's failure to send a notice to PEPA with respect to the commencement of the remedial works and to the identity of the contractor appointed in the Project (by submitting a copy of the contract concluded therewith), including for the failure to perform the works described in the remedial project and to comply with the deadlines specified in relation thereto.

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

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

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

- a) preliminary complaint against Assessment Note no. 299, submitted to the ENG on December 14, 2017. The ENG point of view was received on January 17<sup>th</sup> 2018;
- b) preliminary complaint against Prior Notice no. 149 submitted to the PEPA on December 14, 2017; the legal response time, according to the contentious law is 30 days;
- c) suspension request of the Prior Notice no. 149, submitted on December 15, 2017 to the Constanta Court; the first hearing was not set.
- d) complaint against the fine received from ENG, submitted to the Ploiesti court on November 29, 2017; the next hearing was set on March 19<sup>th</sup> 2018.

On December 20, 2017 the Company submitted to the PEPA notice for initiation of the project works (phase I- construction) and on December 21, 2017 a correspondence with details regarding the company which will execute the construction works.

Up to this date no written confirmation was received from the environmental authorities regarding compliance of the company with the obligations mentioned in the EIA, related the execution of the remediation project.

## **26. COMMITMENTS**

### **Environmental commitments**

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

As of December 31, 2017 and 31 December 2016 Rompetrol Rafinare SA has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega refinery obligations, which have been provisioned.

At the end of March 2017 Rompetrol Rafinare SA has achieved the annual compliance with greenhouse gas (CO<sub>2</sub>) emission regulations by returning a number of CO<sub>2</sub> certificates equivalent to the emission of 2016.

At the end of March 2018 Rompetrol Rafinare SA will buy back a total of 430,000 CO<sub>2</sub> certificates from Act Financial Solutions BV (former ACT Commodities BV).

### **Other commitments**

As of December 31, 2017, Rompetrol Rafinare S.A. contracted capital commitments for projects related to capital maintenance, authorizations, etc. in amount of USD 28.89 million (2016: USD 55.03 million).

## 26. COMMITMENTS (continued)

### Sale and purchase commitments

As of December 31, 2017, Rompetrol Rafinare S.A. contracted purchase contracts for raw materials and utilities estimated to USD 2,466.58 million (2016: USD 2,102.8 million) and has commitments for sales of petroleum, petrochemicals products and utilities sales estimated to USD 3,016 million (2016: USD 4,110.4 million).

## 27. 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 11 and 12), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the "Statement of Changes in the Shareholders' Equity".

### B. GEARING RATIO

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Borrowings maturing in over one year	57,155,251	281,763,783
Own capitals	2,579,458,450	1,326,900,989
Gearing ratio	2.22%	21.23%

### C. Financial instruments

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Financial assets</b>		
Trade receivables and other receivables	1,490,364,904	898,058,749
Derivatives	-	22,980
Cash and bank accounts	22,863,280	45,891,549
<b>TOTAL FINANCIAL ASSETS</b>	<u><b>1,513,228,184</b></u>	<u><b>943,973,278</b></u>
<b>Financial liabilities</b>		
Short term borrowings from shareholders and related parties	683,141,317	1,065,970,431
Derivatives	515,760	-
Commercial liabilities and other liabilities	3,741,224,898	3,516,647,537
Short term loans	467,139,993	89,183,260
Long term borrowings from banks	-	281,763,783
Hybrid instrument - long-term portion	57,155,251	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<u><b>4,949,177,220</b></u>	<u><b>4,953,565,011</b></u>

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

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

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

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

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

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

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

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

### **Fair value hierarchy**

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

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

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

	<u>31 December 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade receivables and other receivables	1,490,364,904	1,490,364,904	-	-
Cash and bank accounts	22,863,280	22,863,280	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,513,228,184</b>	<b>1,513,228,184</b>	-	-
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	683,141,317	683,141,317	-	-
Derivatives	515,760	-	515,760	-
Commercial liabilities and other liabilities	3,741,224,898	3,741,224,898	-	-
Short term loans	467,139,993	467,139,993	-	-
Hybrid instrument - long-term portion	57,155,251	-	57,155,251	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,949,177,220</b>	<b>4,891,506,209</b>	<b>57,671,011</b>	-
	<u>31 December 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets</b>				
Trade receivables and other receivables	898,058,749	898,058,749	-	-
Derivatives	22,980	-	22,980	-
Cash and bank accounts	45,891,549	45,891,549	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>943,973,278</b>	<b>943,950,298</b>	<b>22,980</b>	-
<b>Financial liabilities</b>				
Short term borrowings from shareholders and related parties	1,065,970,431	1,065,970,431	-	-
Commercial liabilities and other liabilities	3,516,647,537	3,516,647,537	-	-
Short term loans	89,183,260	89,183,260	-	-
Long term borrowings from banks	281,763,783	281,763,783	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,953,565,011</b>	<b>4,953,565,011</b>	-	-

At 31 December 2017 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements

**D. Derivative financial instruments**

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

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

**Balance Sheet**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Derivative financial assets	-	22,980
Derivative financial liabilities	(515,760)	-
<b>Net position - asset/(liability)</b>	<b>(515,760)</b>	<b>22,980</b>

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

Income Statement

	<u>31 December 2017</u>	<u>31 December 2016</u>
Unrealized (gains)	-	-
Unrealized (losses)	-	-
<b>Net position - (gain)/loss - in Cost of sales</b>	-	-
Realized losses – net	38,266,959	(710,680)
<b>Total position - loss/(gain) - in Cost of sales</b>	<u>38,266,959</u>	<u>(710,680)</u>

**E. Market risk**

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

**F. Foreign Currency Risk Management**

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

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

**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 course of 5%. For a 5% weakening of the RON against the main currencies, there would be a negative impact in the profit, with the same value.

	<u>USD</u>		<u>EUR</u>	
	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>RON</b>				
5%	(162,621,086)	(158,280,065)	4,110,054	(78,907)
-5%	162,621,086	158,280,065	(4,110,054)	78,907

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

### **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 12.

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 2017 would increase / decrease by RON 15.9 million (2016: increase / decrease by RON 15.9 million).

**ROMPETROL RAFINARE S.A.**  
**NOTES TO THE FINANCIAL REPORT**  
**For financial exercise ending on 31 December 2017**  
*(all amounts expressed in Lei ("RON"), unless otherwise specified)*

**27. 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 2017 and 31 December 2016 based on contractual outdated payments, including interest payable until the end of the contracts for finance leasing and loans.

	Less than 1 month or current	<3 months	3-12 months	1-5 years	>5 years	Total
<b>Balance as at 31 December 2017</b>						
Commercial liabilities and other liabilities	3,577,911,814	163,141,849	-	-	171,235	3,741,224,898
Derivatives	515,760	-	-	-	-	515,760
Short term borrowings from related parties	529,730,217	11,294,827	142,211,100	-	-	683,236,144
Short term borrowings from banks	31,802,772	955,031	435,337,221	-	-	468,095,024
Long term borrowings from banks	-	4,700,554	1,566,851	-	-	6,267,405
Hybrid instrument - long-term portion	-	-	-	-	57,155,251	57,155,251
	<b>4,139,960,563</b>	<b>180,092,261</b>	<b>579,115,172</b>	<b>-</b>	<b>57,326,486</b>	<b>4,956,494,483</b>
<b>Balance as at 31 December 2016</b>						
Commercial liabilities and other liabilities	3,454,743,711	61,474,932	428,894	-	-	3,516,647,537
Short term borrowings from related parties	7,000,000	1,059,002,164	-	-	-	1,066,002,164
Short term borrowings from banks	-	478,195	89,820,854	-	-	90,299,049
Long term borrowings from banks	-	2,235,725	6,707,176	284,744,750	-	293,687,651
	<b>3,461,743,711</b>	<b>1,123,191,016</b>	<b>96,956,924</b>	<b>284,744,750</b>	<b>-</b>	<b>4,966,636,401</b>



## **27. 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, the management developed a hedge policy which was presented to the Company's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Company started on January 2011 to hedge commodities held by Rompetrol Rafinare.

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

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

### **K. Credit risk**

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

#### **Trade receivables**

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

#### **Financial instruments and bank deposits**

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

**28. SUBSEQUENT EVENTS**

Rompetrol Rafinare S.A credit facility in amount of RON 7 million granted by Rompetrol Well Services S.A was prolonged until April 14, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was prolonged until April 10, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was prolonged until May 3, 2018.

Rompetrol Rafinare S.A credit facility in amount of RON 11.2 million granted by Rompetrol Well Services S.A was prolonged until May 28, 2018.

At the end of March 2018 Rompetrol Rafinare SA is going to buy back a total of 430,000 CO2 certificates (in amount of EUR 2.6 million) from Act Financial Solutions BV (former ACT Commodities BV).