rompetrol | KazMunayGas Group Member

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REPORT OF THE BOARD OF DIRECTORS OF ROMPETROL RAFINARE ON THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS OF JUNE 30, 2017

The figures include consolidated financial statements for this period prepared by the company in accordance with International Financial Reporting Standards („IFRS”). Consolidated financial statements of Rompetrol Rafinare include the results of the parent company Rompetrol Rafinare S.A and its subsidiaries Rompetrol Downstream S.R.L, Rompetrol Gas S.R.L, Rompetrol Quality Control S.R.L, Rom Oil SA, Rompetrol Logistics S.R.L and Rompetrol Petrochemicals S.R.L.

HIGHLIGHTS – CONSOLIDATED

	H1 2017	H1 2016	%	H1 2017	H1 2016	%
	USD	USD		RON	RON	
Financiar						
Gross Revenues	1,718,414,575	1,702,624,994	1%	6,859,051,776	6,796,027,663	1%
Net Revenues	1,274,423,444	1,153,144,118	11%	5,086,861,177	4,602,774,746	11%
EBITDA	57,538,863	90,198,125	-36%	229,666,372	360,025,816	-36%
EBITDA margin	4.5%	7.8%		4.5%	7.8%	
EBIT	7,434,687	42,452,061	-82%	29,675,554	169,447,399	-82%
Net profit / (loss)	(7,030,136)	22,031,313	N/A	(28,060,787)	87,937,982	N/A
Net Profit / (loss) margin	-0.6%	1.9%		-0.6%	1.9%	

Rompetrol Rafinare Constanta (RRC) gross revenues reached over USD 1.718 billion in H1 2017 as compared with the same period in 2016, influenced by the volatility of international quotations for petroleum products.

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ECONOMIC ENVIRONMENT

		H1 2017	H1 2016	%
Brent Dated	USD/bbl	52	40	30%
Ural Med	USD/bbl	50	38	32%
Brent-Ural Differential	USD/bbl	1.32	1.67	-21%
Premium Unleaded 10 ppm FOB Med	USD/t	531	442	20%
Diesel ULSD 10 ppm FOB Med	USD/t	464	360	29%
RON/USD Average exchange rate		4.19	4.03	4%
RON/USD Closing exchange rate		3.99	4.06	-2%
RON/EURO Average exchange rate		4.54	4.49	1%
RON/EURO Closing exchange rate		4.55	4.52	1%
USD/EURO Closing rate		1.14	1.11	3%
Inflation in Romania*		0.40%	-0.99%	N/A

*Source: Platts, * INSSE*

Over H1 2017 crude prices were again driven by market oversupply as producers ramped up output to maximize revenue in the lower flat price environment. After a strong start, the steady downward pressure from the supply side resulted in an H1 average price for outright Brent in the range of around $52 per barrel compared to $40 for H1 2016.

Several factors converged to make rebalancing possible. Output agreement between OPEC and 11 non-OPEC producers, pushed price levels up to around $55 per barrel until March, when trend changed in March on fears of a US production recovery and indications of returning Libyan production. In April, another upward move was brought on by Libyan force majeure interrupting exports from an important terminal. End-April prices have started to decrease due to steady upward march of US crude production, return of Nigerian crude oil from force majeure and recovery of Libyan production plus a stubbornly high crude stocks despite record levels of crude intake over Q2.

Urals differentials have generally been stronger year-on-year over H1 2017. In early H1, the additional tightness in differentials could be attributed to the effects of the OPEC/non-OPEC cut. From the second half of H1 onwards the surge was fueled primarily by logistical problems – particularly extensive work on the pipeline network feeding Primorsk. Average spread between Urals Med and Dated Brent stood at around $1.30 per barrel in H1, roughly 30 cents narrower than H1 2016. Urals Med differentials had their extreme ends at 67 cents per barrel and around $2.00 per barrel against Dated Brent, representing a much wider range of values than in the same period last year. A significant factor has been a curtailment in Urals loadings from Baltic ports due to pipeline issues. Alongside the shorter loadings caused by the pipeline works, a significant demand increase from Asian buyers helped to strengthen the uptick in prices. India and China have become particularly keen importers of Urals, as multiple indicators show increasing arbitrage flows into these markets.

High stock levels kept gasoline cracks under a firm lid over the early year, and benchmark cracks in Europe, Asia, and the US all coming in below 2016 levels over the first couple of months. A largely seasonal recovery towards the end of Q1 brought with it some optimism, but since then, cracks have largely stagnated. At the same time,

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recovering middle distillate cracks have allowed for crude intake to remain high, or, in some cases, increase even further. Parts of the pressure on gasoline cracks has clearly come from record crude intake in the US. Here, gasoline production levels moved from strength to strength, with stock builds only recently showing signs of easing. Some of the surplus production has found its way to Latin American countries ailing from persistent refinery issues, but this has nonetheless pressured arbitrage flows from Europe to America.

Mediterranean gasoline has been trending at consistent discounts to Singapore 95 over the quarter, in contrast to the premiums observed over Q2 2016. A relatively strong Asian market meant that Med gasoline has likely increasingly been drawn into the Middle East, where there has been a chronic outage at Ruwais refinery.

This year, European gas oil/diesel cracks saw a relatively strong H1. Although still trending below the five-year average, they were consistently higher year-on-year over Q1 and most of Q2. Cold weather in Q1 underpinned strong regional demand growth which in turn tightened the European gas oil/diesel balance in addition to the seasonal tightening due to maintenance. In Q2, high crude runs kept gas oil/diesel lead to increasing product stocks, which translated into pressure for cracks over May amid a downside in heating requirements.

JBC Energy’s standard Urals cracking margin, based on a basket of crudes typically bought by Med refiners improved by a solid $1 per barrel over the first half of the year relative to H1 2016. The improvement came in combination with a soaring in crude runs, exceeding 2015 levels even though a refinery closure in France last year shrunk the region’s CDU capacity. There is little doubt that rampant refinery outages in Central and South America contributed at least part of this good fortune. ULSD volumes from the US tended to find a more profitable home in the likes of Brazil and Mexico, while the rise in Russian ULSD output turned out to be milder than expected. Both factors left the Med ULSD market moderately tight, and elevated middle distillates into the primary drivers of refining margins.

The information is based on analysis provided by JBC Energy GmbH

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REFINING SEGMENT

		H1 2017	H1 2016	%	H1 2017	H1 2016	%
Financial		**USD**	**USD**		**RON**	**RON**	
Gross Revenues	USD/RON	1,413,931,408	1,392,259,088	2%	5,643,707,215	5,557,202,150	2%
Net Revenues	USD/RON	1,046,925,644	937,138,992	12%	4,178,803,708	3,740,590,287	12%
EBITDA	USD/RON	42,246,205	58,042,466	-27%	168,625,727	231,676,503	-27%
EBITDA margin	%	4.0%	6.2%		4.0%	6.2%	
EBIT	USD/RON	8,393,609	28,718,178	-71%	33,503,090	114,628,608	-71%
Net profit / (loss)	USD/RON	(17,210,246)	9,492,502	N/A	(68,694,697)	37,889,322	N/A
Net profit / (loss) margin	%	-1.6%	1.0%		-1.6%	1.0%	
Gross cash refinery margin/tone (PEM)	USD/(RON)/t	39.55	42.31	-7%	157.85	168.88	-7%
Gross cash refinery margin/bbl (PEM)	USD (RON) /b	5.45	5.83	-7%	21.73	23.25	-7%
Net cash refinery margin/tone (PEM)	USD/(RON) /t	16.49	19.87	-17%	65.83	79.31	-17%
Net cash refinery margin/bbl (PEM)	USD (RON) /b	2.27	2.74	-17%	9.06	10.92	-17%
Operational							
Feedstock processed in Petromidia refinery	Kt	2,422	2,792	-13%			
Feedstock processed in Vega refinery		152	172	-11%			
Gasoline produced	Kt	626	756	-17%			
Diesel & jet fuel produced	Kt	1,288	1,406	-8%			
Motor fuels sales - domestic	Kt	950	906	5%			
Motor fuels sales - export	Kt	859	1,143	-25%			
Export	%	47%	56%				
Domestic	%	53%	44%				

Note: Refining segment comprises the results of the company Rompetrol Rafinare (which operates Petromidia and Vega refineries). Rompetrol Rafinare computes Gross refinery margin as follows – (Oil Product Sales – Cost of Feedstock) / Quantity of sales. Net Refinery margin is the EBITDA of the refinery divided by quantity of sales.

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Rompetrol Rafinare is a part of KMG International Group and its operates the Petromidia Refinery – the biggest entity of the kind in Romania and one of the most modern in the Black Sea region and Vega Refinery – the oldest refinery in operation (1905) and the sole producer of bitumen and hexane, as well as the Petrochemical division – sole polymer manufacturer in the country.

The gross revenues of the refining segment reached USD 1.414 billion in H1 2017 higher by 2% compared with H1 2016, influenced by the volatility of international quotations for petroleum products.

During May 2017 Rompetrol Rafinare has stop production activities within its both refineries – Petromidia Navodari and Vega Ploiesti in order to perform scheduled technological works, established since November last year.

The works were coordinated by Rominserv, general contractor of the KMG International Group, and targeted the optimization and improvement of production flows, aligned to the new processing capacity of the Petromidia refinery, as well as carrying out of some preventive maintenance works for purposes of increasing the level of safety in operating the units and the level of environment protection.

During the mentioned period, both Rompetrol Rafinare SA production facilities provided supplying of products towards customers from accumulated stocks.

In H1 2017, the total throughput for Petromidia refinery was 2.422 million tons by 13.26% lower compared with the same period last year when the total throughput was 2.792 million tons; the refining capacity utilization was 70.4% lower by 22.05% compared with the same period last year. The decrease in volume of raw material processed compared to similar periods last year is due to the planned shutdown in May 2017.

In respect of Vega refinery, in H1 2017, the total throughput refinery was 152.017 thousand tons by 11.40% lower compared with the same period last year when the total throughput was 171.573 thousand tons and the refining capacity utilization was 92.13% lower by 11.85% compared with the same period last year.

The financial results of the refining segment were influenced by the lower volume of production and sales achieved compared to the similar periods last year due to the planned shutdown in May 2017. During the analysis period, the processing cost optimization programs were continued and the benefits recorded are in line with budget assumptions.

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 520 million in H1 2017.

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PETROCHEMICALS SEGMENT

		H1 2017	H1 2016	%	H1 2017	H1 2016	%
Financial		**USD**	**USD**		**RON**	**RON**	
Revenues	USD/RON	79,984,194	91,069,411	-12%	319,256,910	363,503,554	-12%
EBITDA	USD/RON	(3,489,295)	7,045,456	N/A	(13,927,521)	28,121,938	N/A
EBIT	USD/RON	(10,833,524)	(750,755)	N/A	(43,242,012)	(2,996,638)	N/A
Net profit / (loss)	USD/RON	(5,502,836)	992,488	N/A	(21,964,571)	3,961,516	N/A
Operational							
Propylene processed	kt	60	65	-8%			
Ethylene processed		28	31	-12%			
Sold from own production	kt	82	97	-15%			
Sold from trading	kt	0	1	-89%			
Total sold		83	98	-15%			
Export	%	48%	57%				
Domestic	%	52%	43%				

Starting 1st of January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A., being fully integrated in the propylene, utilities and logistics flow.

In terms of low density polyethylene unit (LDPE), the petrochemicals segment works 100% with ethylene from import. The polypropylene unit (PP) works with 100% raw material from the Petromidia refinery.

The petrochemicals segment is the sole polypropylene producer in Romania and has constantly succeeded to increase its market share on secondary categories of products. Its dynamic development strategy has secured the company a competitive position on the domestic market and on the regional one – the Black Sea and Mediterranean region and the Eastern and Central Europe.

In H1 2017, the total polymers production for Petrochemicals area was 64.690 thousand tons by 14.36 % lower compared with the same period last year when the total polymers production was 75.538 thousand tons, mainly caused by unplanned shutdown of the LDPE unit and planned shutdown of the PP unit.

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MARKETING SEGMENT

		H1 2017 USD	H1 2016 USD	%	H1 2017 RON	H1 2016 RON	%
Financial							
Gross Revenues	USD/RON	1,052,015,776	1,033,754,848	2%	4,199,120,970	4,126,232,476	2%
EBITDA	USD/RON	19,174,620	26,521,498	-28%	76,535,496	105,860,559	-28%
EBIT	USD/RON	9,838,937	17,729,225	-45%	39,272,117	70,766,202	-45%
Net profit / (loss)	USD/RON	15,648,251	15,532,992	1%	62,459,994	61,999,939	1%
Operational							
Quantities sold in retail	Kt	319	294	9%			
Quantities sold in wholesale	Kt	539	556	-3%			
LPG quantities sold	Kt	171	145	18%			

<u>Note</u>: Marketing segment includes the results of Rompetrol Downstream, Rom Oil, Rompetrol Quality Control Rompetrol Logistics and Rompetrol Gas

The marketing segment had a turnover of 1.052 billion in H1 2017, higher by 2% as against the same period last year.

In Q2 2017 compared to Q2 2016, the Platt's quotations (FOB Med Italy-mean), expressed in the currency of reference, USD were on average by 7% higher for gasoline and by 10% higher for diesel. The decrease of the exchange rate USD/RON by 4% led to an effective increase of 11% for gasoline quotation and of 15% for diesel quotation.

A major influence in changing prices had a reduction in VAT starting with 1st of January 2017, from 20% to 19%, and excise duties on fuels were reduced by 70 eurocents / 1000 liters, cuts that were fully transferred to prices paid by customers at the pump.

As of June 2017, the Rompetrol Downstream's distribution segment contained 789 points of sale, including the network of owned stations, partner stations and mobile stations: expres, cuves and internal bases.

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APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2017, UNAUDITED

Amounts in USD/RON

	H1 2017	H1 2016	%	H1 2017	H1 2016	%
	USD	USD		RON	RON	
Gross Revenues	1,718,414,575	1,702,624,994	1%	6,859,051,776	6,796,027,663	1%
Sales taxes and discounts	(443,991,131)	(549,480,876)	-19%	(1,772,190,599)	(2,193,252,917)	-19%
Net revenues	**1,274,423,444**	**1,153,144,118**	**11%**	**5,086,861,177**	**4,602,774,746**	**11%**
Cost of sales	(1,175,922,909)	(1,033,407,093)	14%	(4,693,696,291)	(4,124,844,413)	14%
Gross margin	**98,500,535**	**119,737,025**	**-18%**	**393,164,886**	**477,930,333**	**-18%**
Selling, general and administration	(88,165,446)	(78,602,299)	12%	(351,912,378)	(313,741,076)	12%
Other expenses, net	(2,900,402)	1,317,335	N/A	(11,576,954)	5,258,142	N/A
EBIT	**7,434,687**	**42,452,061**	**-82%**	**29,675,554**	**169,447,399**	**-82%**
Finance, net	(13,669,228)	(16,139,997)	-15%	(54,560,723)	(64,422,799)	-15%
Net foreign exchange gains / (losses)	(380,525)	(3,808,769)	-90%	(1,518,866)	(15,202,702)	-90%
EBT	**(6,615,066)**	**22,503,295**	**N/A**	**(26,404,035)**	**89,821,898**	**N/A**
Income tax	(415,070)	(471,982)	-12%	(1,656,752)	(1,883,916)	-12%
Net result	**(7,030,136)**	**22,031,313**	**N/A**	**(28,060,787)**	**87,937,982**	**N/A**
EBITDA	**57,538,863**	**90,198,125**	**-36%**	**229,666,372**	**360,025,816**	**-36%**

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APPENDIX 2 – CONSOLIDATED BALANCE SHEET JUNE 30, 2017, UNAUDITED
Amounts in USD/RON

	June 30, 2017	December 31, 2016	%	June 30, 2017	December 31, 2016	%
	USD	USD		RON	RON	
Assets						
Non-current assets						
Intangible assets	7,558,830	7,265,762	4%	30,171,069	29,001,289	4%
Goodwill	82,871,706	82,871,706	0%	330,782,416	330,782,416	0%
Property, plant and equipment	1,119,368,049	1,138,146,913	-2%	4,467,957,568	4,542,913,403	-2%
Financial assets and other	65,091,474	64,968,050	0%	259,812,619	259,319,972	0%
Total Non Current Assets	**1,274,890,059**	**1,293,252,431**	**-1%**	**5,088,723,672**	**5,162,017,080**	**-1%**
Current assets						
Inventories	226,157,044	230,091,565	-2%	902,705,842	918,410,482	-2%
Trade and other receivables	390,035,870	287,577,488	36%	1,556,828,176	1,147,865,544	36%
Derivative financial Instruments	401,671	5,340	N/A	1,603,270	21,315	N/A
Cash and cash equivalents	6,807,345	15,810,298	-57%	27,171,518	63,106,805	-57%
Total current assets	**623,401,930**	**533,484,691**	**17%**	**2,488,308,806**	**2,129,404,146**	**17%**
Total assets	**1,898,291,989**	**1,826,737,122**	**4%**	**7,577,032,478**	**7,291,421,226**	**4%**
Equity and liabilities						
Total Equity	**472,308,011**	**478,624,262**	**-1%**	**1,885,217,428**	**1,910,428,742**	**-1%**
Non-current liabilities						
Long-term debt	-	193,162,805	-100%	-	771,009,336	-100%
Provisions	74,981,195	76,429,343	-2%	299,287,439	305,067,723	-2%
Other	496,743	483,680	3%	1,982,750	1,930,609	3%
Total non-current liabilities	**75,477,938**	**270,075,828**	**-72%**	**301,270,189**	**1,078,007,668**	**-72%**
Current Liabilities						
Trade and other payables	879,855,508	788,571,675	12%	3,511,943,264	3,147,583,846	12%
Derivative financial instruments	-	323,130	-100%	-	1,289,773	-100%
Short-term debt	470,650,532	289,142,227	63%	1,878,601,597	1,154,111,197	63%
Total current liabilities	**1,350,506,040**	**1,078,037,032**	**25%**	**5,390,544,861**	**4,302,984,816**	**25%**
Total equity and liabilities	**1,898,291,989**	**1,826,737,122**	**4%**	**7,577,032,478**	**7,291,421,226**	**4%**

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Risk Management

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

Interest rate risk

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

Foreign exchange risk

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products sales are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in foreign currencies, which are translated 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. Group Treasury is responsible for handling the Group foreign currency transactions.

Liquidity and cash flow risks

The liquidity risk consists in not having financial resources available in order to fulfill company obligations when they are due. Based on the forecasted cash flow, the management of the company checks daily the liquidity level and ensures the fulfillment of obligations to suppliers, to the state budget, to the local tax authorities etc. according to their maturity. The current and immediate liquidity ratios are monitored permanently.
One of the concerns of the management of Rompetrol Rafinare is to know the effects of all these risks in order to ensure that the economic-financial activity of the company is carried out without any problems. During 2017 the company enjoyed continuous financing resources at the needed levels and ensured that no cases of temporary lack of financial resources or of lack of liquidity of the company occurred, as a result of selling products guaranteed with payment instruments and negotiating receipt terms from clients and payment terms to suppliers that are advantageous, maintaining at the same time a good relation with the business partners. Rompetrol Rafinare is part of the cash pooling facility of the KMGI Group and therefore can cover unexpected cash outflows by drawing from the facility.

Credit risk

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

- *Trade receivables*

The Group is exposed to credit risk. Overdue 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 ageing.

- *Financial instruments and bank deposits*

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

Commodity price risk

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

According to the hedge policy, on the raw materials and petroleum products side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, at the beginning of 2016, the hedge strategy was split between futures and options while a certain quantity above base operating stock left unhedged.

Risk management activities are separated into physical effective transactions (purchase of raw materials and sales of petroleum to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical effective transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Group sells or buys the equivalent number of future contracts based on the current position at that particular moment. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. The company also had hedge operations for refinery margins.

Operational risk

The operational risk derives from the possibility that accidents, errors, malfunctions of units may occur, as well as from the influences of the environment upon the operating and financial results. Rompetrol Rafinare S.A. has continued a broad revamp process on the refinery technology, for the purpose of increasing the production, reducing the technological losses, as well as eliminating the accidental shut-downs in the industrial process. Also, the Company is preoccupied with maintaining and improving the quality-environment-safety integrated system on a constant basis, aiming to improve the organizational image, by complying with the requirements on quality, environmental protection and work safety, by improving the relationship with the authorities and with the socio-economic society, by limiting the civil and criminal liability and by meeting the legal requirements for quality – environment – security.

ROMPETROL RAFINARE S.A.

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fax: + (40) 241 50 69 30
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Subsequent events

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until August 10, 2017.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until August 14, 2017.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until September 3, 2017.

Facilities granted to Rompetrol Rafinare S.A. by Bancpost in amount of EUR 30 million, respectively EUR 27.96 million have been extended until July 31, 2018.

On July 17, 2017, Rompetrol Rafinare SA and the affiliates KMG International NV and Oilfield Exploration Business Solutions SA received an ordinance issued by DIICOT which mandates the continuation of the criminal investigation of deeds attributed to the 1998-2003 period and of the grounds for the company's civil liability for part thereof.

As before, the company will further cooperate with the authorities in a transparent way with the aim that the investigations complete in due course and in full observance of the company's rights.

This new procedural deed does not affect the daily activtiy of Rompetrol refineries the operations of which are being carried out in the normal course.

However, the company continues to work with its local and international legal advisors to use all legal means to protect its investments, activities and current operations as well as its reputation.

The company will provide further information once there will be clarified the aspects related to the company's liability for the deeds currently pending investigation.

The national oil and gas company of Kazakhstan - KazMunayGas became in August 2007 the major shareholder, and in 2009 the sole shareholder, of The Rompetrol Group (currently named KMG International NV) that the company is a part of.

Trade Registry No: J 13/534/1991
Fiscal Identification No: RO1860712
IBAN: RO22BACX0000000030500310
UniCredit Tiriac Bank – Constanta

Note: The Board of Directors Report was prepared based on the unaudited financial statements.

The functional currency, as basis for preparing the financial statements, is USD. RON currency is used as currency for presenting the informations in USD, according to the International Financial Reporting Standards. All the RON information were obtained by multiplying the USD values with the exchange rate USD/RON = 3.9915 as of 30 June 2017.

Chairman of the Board of Directors
of ROMPETROL RAFINARE S.A.

____

Catalin Dumitru

Chief Executive Officer	**Chief Financial Officer**
____________________	____________________
Yedil Utekov	**Vasile–Gabriel Manole**

Biannual Report of the Board of Directors for the first half of 2017

Prepared by in accordance with Annex 31 of Regulation no. 1/2006 issued by the Financial Supervisory Authority (the former National Securities Commission)

Name of the trade company: **ROMPETROL RAFINARE S.A.**
Registered office: **215 Năvodari Blvd. 215, Pavilion Administrativ, NĂVODARI, Constanţa County**
Telephone number: **0241/50 61 50**
Facsimile number: **0241/50 69 30**
Sole registration code with the Trade Register Office: **RO1860712**
Trade Register number: **J13/534/05.02.1991**
Subscribed and paid share capital: **LEI 4,410,920,572.6**
Regulated market on which the securities are traded: **Bucharest Stock Exchange**
Shares market symbol: **RRC**

Overview and objectives:

In the first semester of the year 2017, the activity of Rompetrol Rafinare, a company of the Group KMG International, was in line with the main premises of the budget. Also, the company continued the process of streamlining of the production process, this being supported by the smooth operation of all installations in the sectors of oil Refinery and Petrochemical Plant.

The amount of raw materials processed in the first half of the year 2017 by Rompetrol Refining (Petromidia and Vega, as well as the Petrochemical Plant) was approx. 2.43 million tons, of which approx. 1.93 million tons of oil, compared with a level total of 2.796 million tons, of which approx. 2.468 million tons of crude oil, for the first half of the year 2016.

For the full year 2017 the Petromidia Refinery proposed itself to process a quantity of raw material of approximately 5.65 million tons, of which 4.92 million tons of crude oil, Vega oil Refinery approximately 0.34 million tons and the Petrochemical Plant proposed itself to process a quantity of raw material of approximately 0.199 million tons.

➢ The objectives of Rompetrol Rafinare investment program for the first half of 2017:

The investment program of Rompetrol Refinery accomplished in the first semester of 2017 was in the amount of USD 27.5 million, as follows:

I) From the category of **compulsory investments required by environmental and safety regulations**, in the first semester of 2017:

- The project **"Expire authorization ISCIR for static equipment's (ISCIR 2017-2018 PEM)"** started**,** a project that consists in the reauthorization of pipes and technological units equipment, according to the ISCIR requirements in force. The project will be finalized in December, 2018.

- Project **"De-clogging discharge channel"** was started. Project consists in: unclogging a length of 1.5 km by removing the deposited sludge on the bottom of the channel and the vegetation on the slopes. The project is in progress and will be finalized on September, 2017.

- The implementation of project **"V26/2 Tank Rehabilitation"** continued (phase II) project as part of the General Master Plan Program, the objective of which is to maintain to an optimal value the storage capacity for Petromidia refinery products and the alignment with the safety requirements. The project estimated finish date in July, 2017.

- The project "**Fire-fighting Water Main Replacement, section A and I"** was started**.** The project scope is to replace and rehabilitate the fire fighting infrastructure according to the Master Plan for Aand I, based on the project design. The project estimated finish date in May, 2018.

II) In the **Development category**, one of mainly project is "**G1 section 1 pumping station modernization"** (continuing with phase II), who consist in new pumps acquisition, Detail Design for execution for foundations and metallic structures in order to reducing the maintenance cost and energy consumption. The project estimated finalizing date is November 2017.

- The project **"Increase Coker severity by introducing HCGO recycle"** was started. The project scope is to replace the actual spray system with state of the art technology to allow reducing gasoil flowrate by improving material dispersion, to procure equipment (sprays) and materials. The project estimated finish date in December, 2018.

III) In the **capital maintenance category**, a very important place is to continuing **Refinery 2017 Shutdown** project, technological shut down for equipment's periodic inspections, catalysts replacement, maintenance, etc.

For Petromidia refinery, general shutdown means a scheduled and execution large-scale capital maintenance and repairing activity wherein an entire production process unit is taken off stream for an extended period for comprehensive revamping, complying and renewal.

To reach the refinery goal of having a high mechanical availability and for compliance with authorizations, the refinery must have high reliability. This can frequently be assured by performing mechanical works only in conditions of shutdown of refinery activity.
As concerns the scheduled turnaround for the refinery, Rompetrol used in the last years the same approach in order to keep the refinery reliability at its best value.
Within this project, the benefits are as follows:

- Make the plant safe to operate till the next planned shutdown;
- Improve the efficiency of the plant within high mechanical availability;
- Reduce routine maintenance costs;
- Perform the Regulatory Inspection;
- Increase reliability / availability of equipment during operation;
- Maintain the Refinery at its nominal capacity;
- Complete the corrective/preventive maintenance;
- Achieve a 96.5 % mechanical availability after restarting the plants.

IV) A very important place is held by projects from **"Storage and logistics"** area:

Rehabilitation of degassers and skids in Rail ramp.

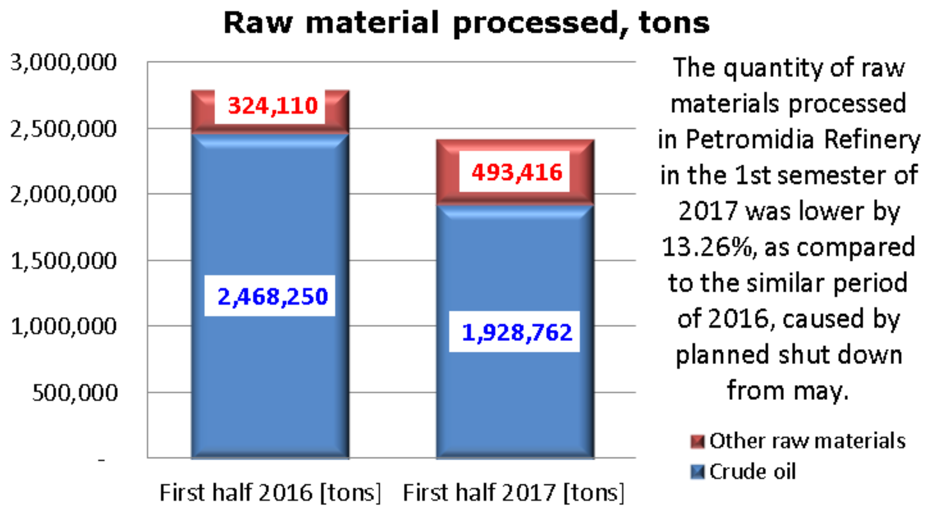
By the implementation of this project the following benefits resulted:

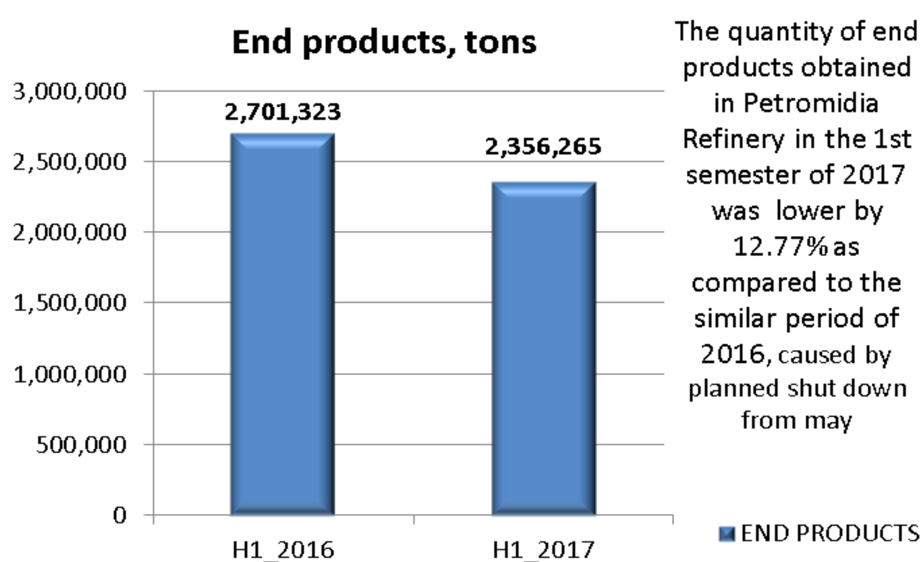
- Increasing the reliability entire Area 300 and both collectors 18 and 17 by implementing of double block and bleed valves (DBB) (valves, Pulsation Dampers;
- Fulfil the Trading forecasted sales plan by ensuring an increased ramp capacity;
- Fulfil the Trading forecasted sales plan by ensuring optimum operating conditions for Vega and complying with delivery requirements of Jet A1 to AirBP.

➢ The objectives of Rompetrol Rafinare regarding quality, health, labour security and environment (QHSE), set for 2017 are the following:

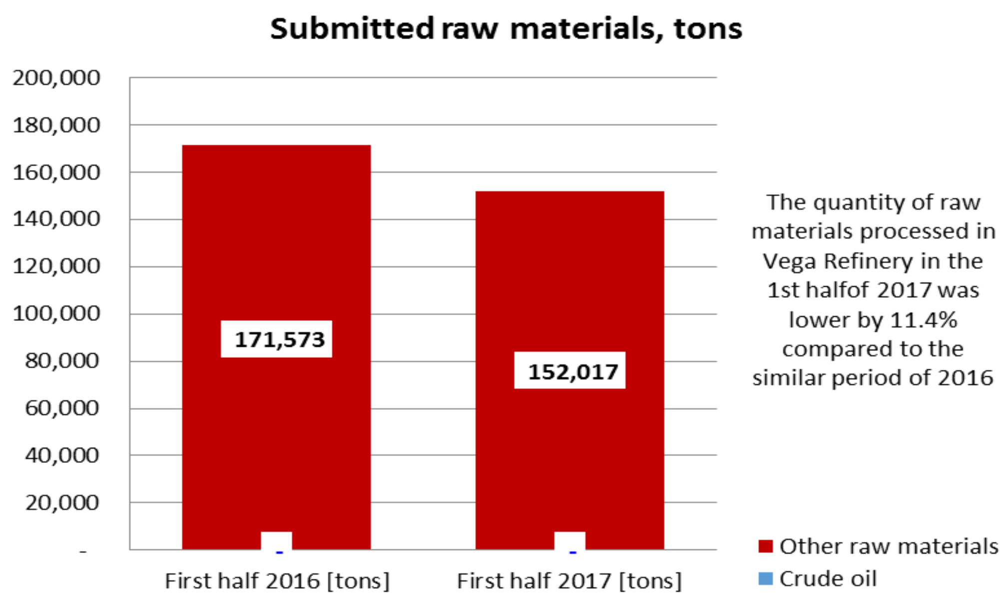
- Maintaining the QHSE integrated management system certification, according ISO&OHSAS standards;
- 100% training for QHSE auditors with the reviewed OHSAS requirements
- “Zero” accidents and professional diseases on Petromidia & Vega Platforms, by obtaining the following values for safety indicators established by KMG Group: 0%(FIR); 1.25% (LTIF, TRIR, MVCR); 0.50% (HSE Index-50%*FIR+40%*TRIR+10%*MVCR);
- Identification of significant hazards associated with operational activities by conducting at least 5 HAZID / HAZOP studies.
- Increase the effectiveness of the "1.LIFE" safety project by remodeling the structure of the safety sub-committees and performing at least 2000 safety audits.
- Establishment and monitoring of safety indicators specific to turnaround period
- Revision of the Integrated Environmental Permit for Petromidia site
- Alignment to the BAT-BREF legislation on gas and VOC emissions, through the implementation of projects specific to the Petromidia and Vega Platforms.
- Evaluation and updating of the Safety Data Sheets associated with Petromidia and Vega products placed on the market in accordance with EU regulations.
- A product compliance indicator of at least 99% for the Refinery Plant and at least 98.7% (PP & LDPE 1 quality) for the Petrochemical Plant.
- Obtaining fuels according to the requirements of the new European and Romanian standard specifications - gasoline production with min. 8% bio-component volume, starting with 2018.
- Certification/Recertification/maintain certification for fuels, as well as for bitumen and CITOM, according to legal and regulatory requirements.

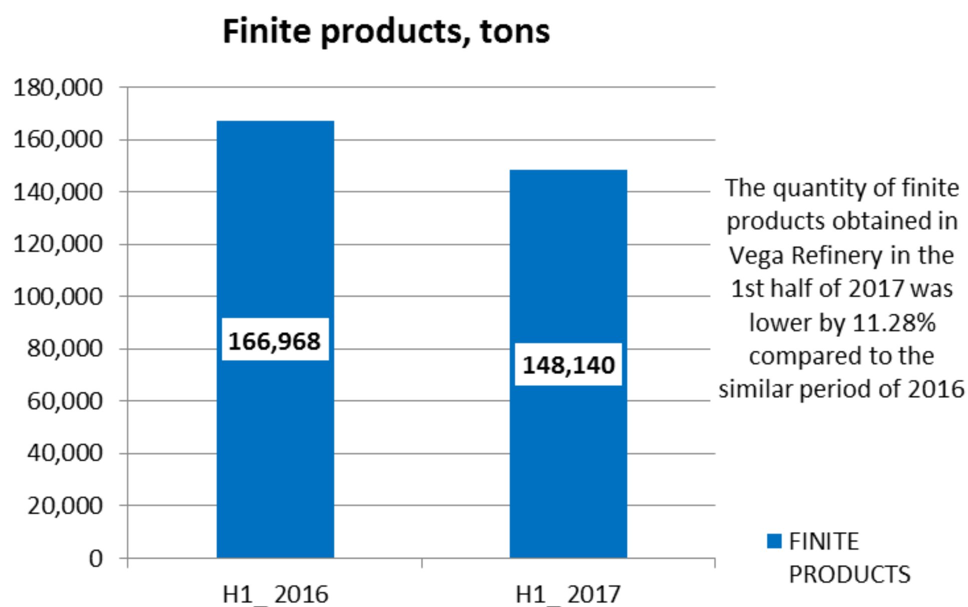
PRODUCTION ACTIVITY of Rompetrol Rafinare – Năvodari Work Point (Petromidia Refinery)





PRODUCTION ACTIVITY of Rompetrol Rafinare – Vega Refinery Work Point (located in Ploiesti)





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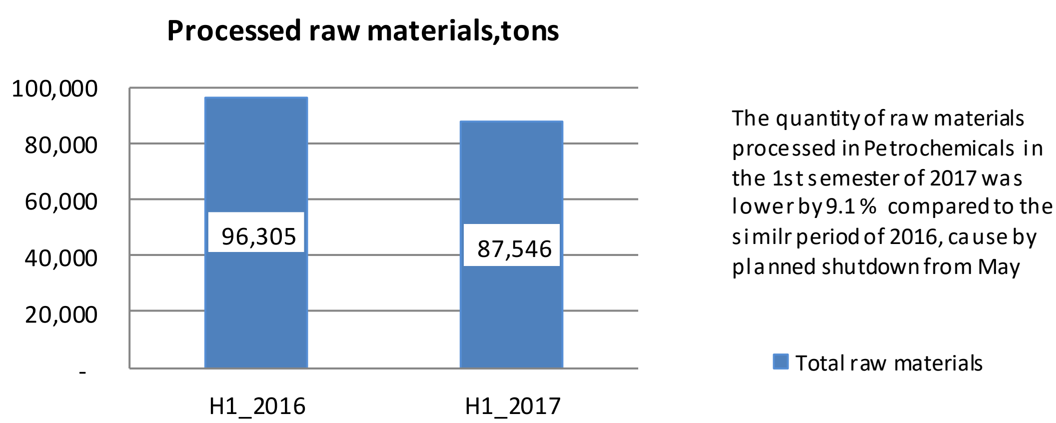
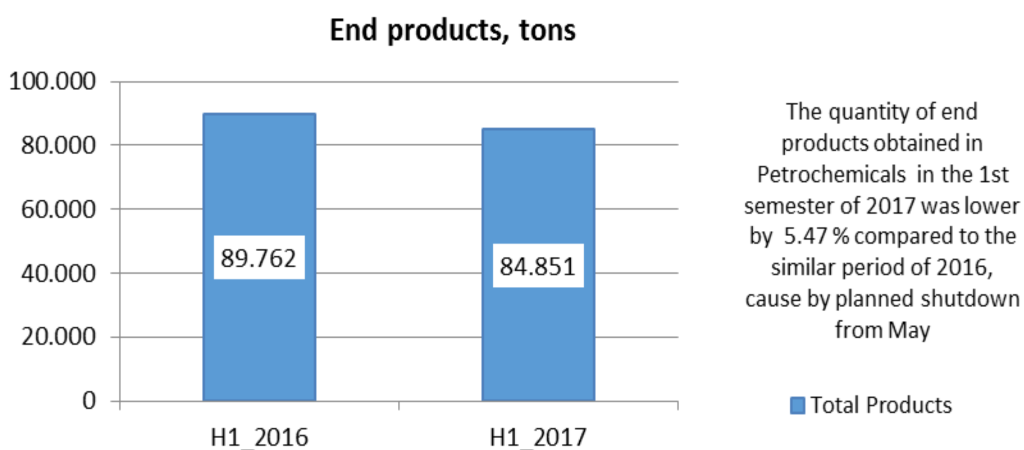
PRODUCTION ACTIVITY of Rompetrol Rafinare – Petrochemicals area





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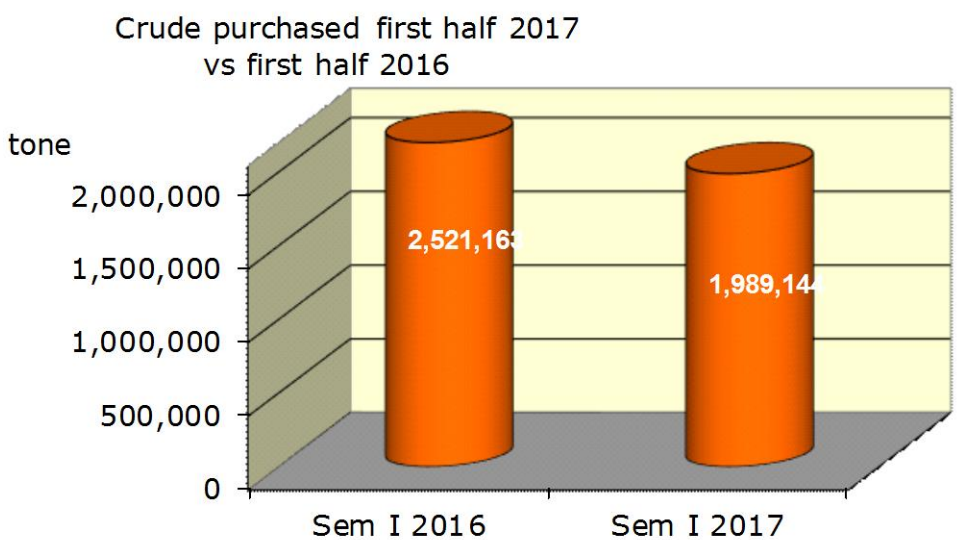
COMMERCIAL ACTIVITY carried out at Năvodari Work Point (Petromidia Refinery) in the 1st Half of 2017

A. Feedstock supply

In the first half of 2017, Rompetrol Rafinare S.A. – Petromidia Refinery purchased crude oil and other feedstock from external and domestic sources, as indicated in the tables below:

Feed stock purchases	Quantity (tons)
1. Crude oil	**1,989,144**
2. Other feedstock	439,332
3. Total external purchases (1+2)	**2,428,476**
4. Total internal purchases	**35,077**

In the first half of 2017, crude oil purchases were lower than the same period of last year due to the turnaround performed in may 2017.



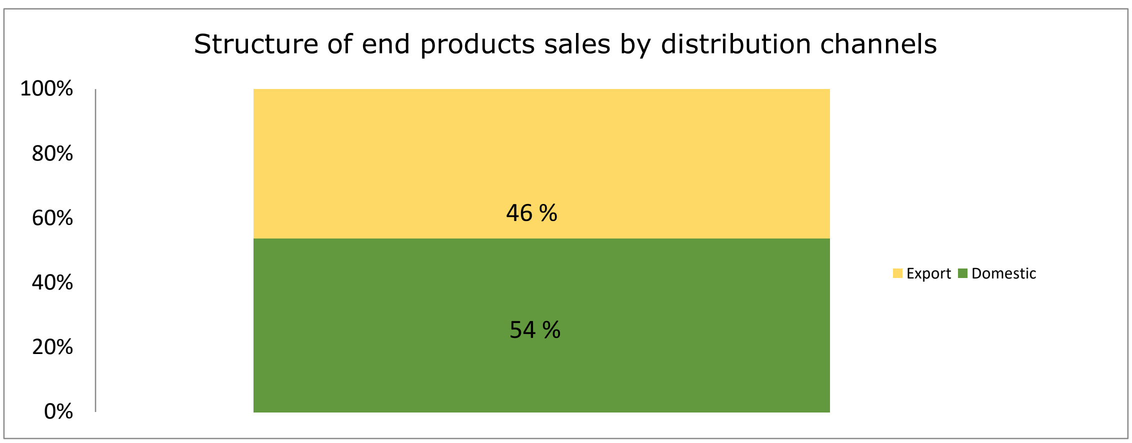
The supplier of imported feedstock (crude) was KazMunayGas Trading AG.
The main internal suppliers of feedstock were:

- Prio Biocombustibil
- Expur SA.
- Mitsubishi International
- Bio Fuel Energy

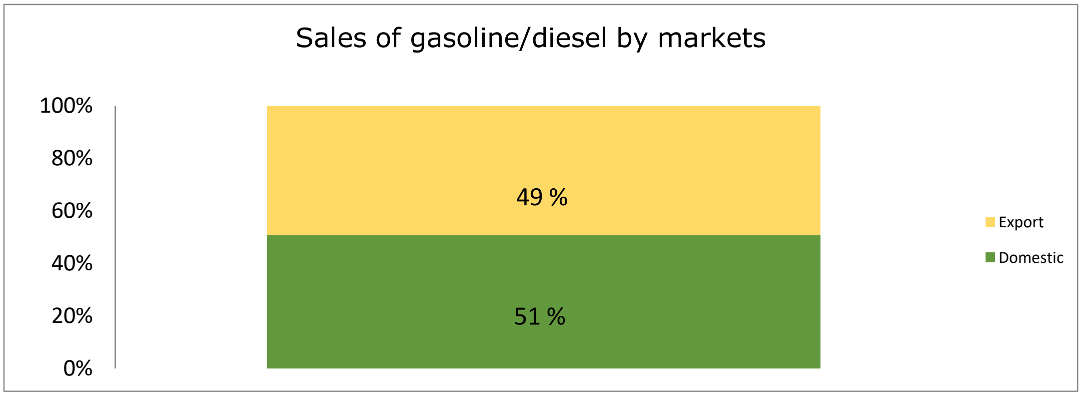
B. Sales

The sales in the first half of 2017 amounted to a total of 2,096,033 tons as compared to 2,367,267 tons in the same period in 2016. The net value of end product sales was 978,938,424 USD as compared to 881,021,169 USD in the first half of 2016, respectively 4,107,695,419 RON as compared to 3,540,748,692 RON in the first half of 2016. Volumes of sales were lower in 2017 due to turnaround performed in the refinery during of the month of may. The higher value in 2017 is due to the higher prices on the international markets as compared to 2016.

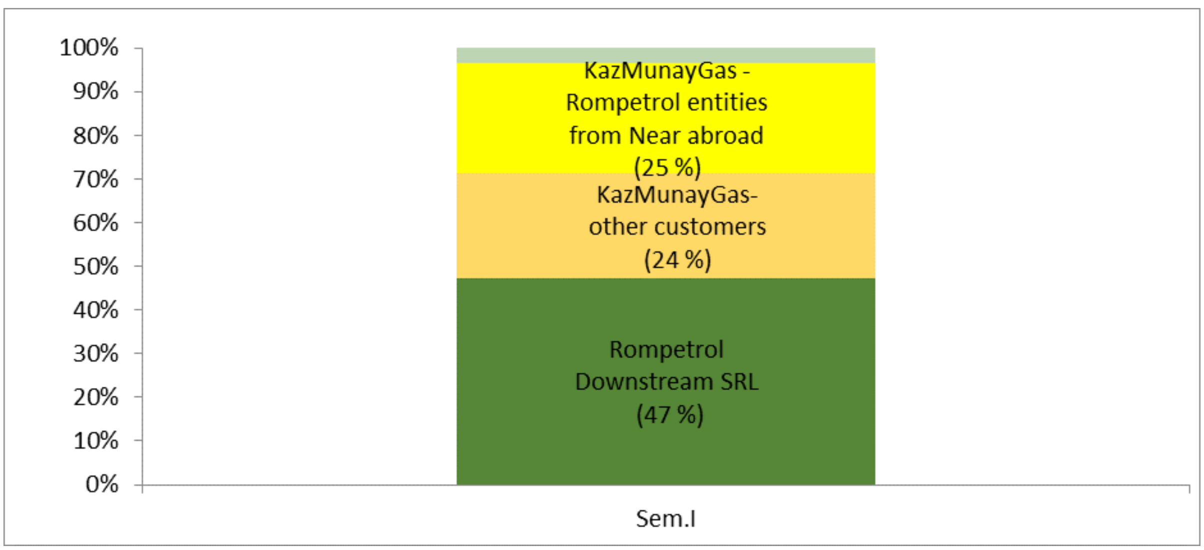
In terms of sales markets, the domestic sales were higher than the external ones, 54% of total sales.



Approximately 81% of the total quantity of end products sold was represented by gasoline and diesel sales (1,693,985 tons). As concerns the distribution channels, the percentage of the sales on the domestic markets was slighty higher than that on the external ones (51%). 834,733 tons of motor fuels (gasoline and diesel) were sold on external markets.



As concerns the distribution channels, the highest volume of gasoline/diesel was sold to Rompetrol Downstream, followed by export sales made through the affiliate KazMunaiGaz Trading AG.



Gasoline

Of the total quantity of 510,821 tons of gasoline sold, approx. 71% was sold on the external market, whereas the remaining percentage was sold on the domestic market. Approx. 73% of the total quantity of gasoline was unleaded Europlus gasoline 10 ppm sulphur

Diesel

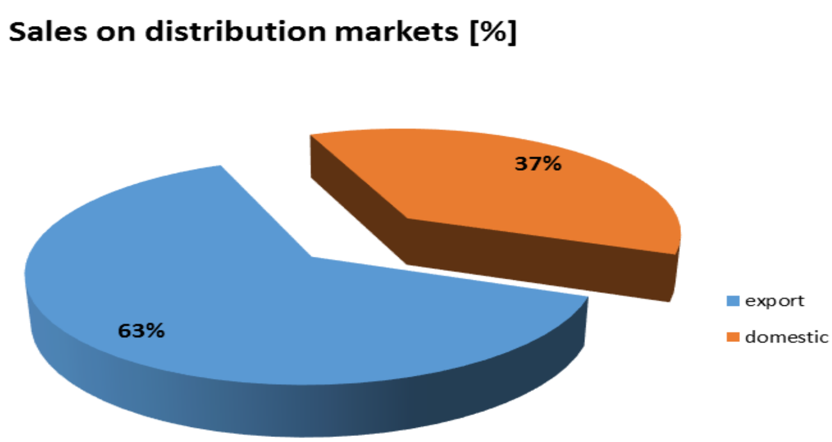
Between January and June 2017, 1,183,164 tons of motor diesel was sold, the percentage of domestic sales (60%) exceeding that of external sales.

LPG

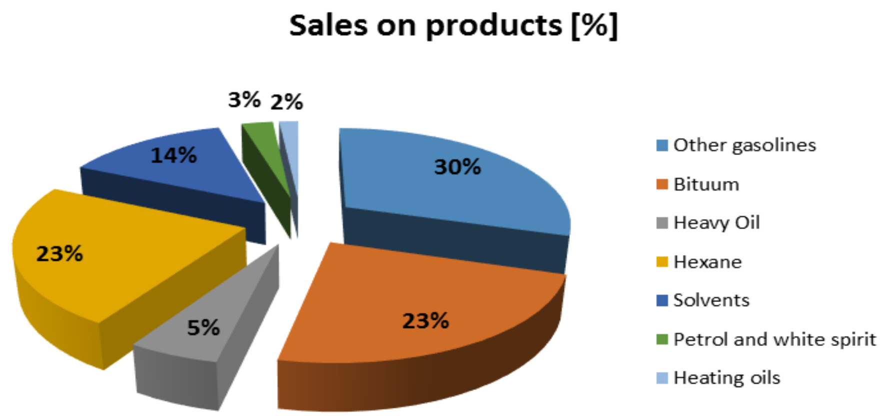
A total of 107,333 tons of liquefied petroleum gas was sold to Rompetrol Gas.
As concerns the other groups of products, the domestic sales were higher than the external ones (jet) and lower than the external ones (petcoke, sulphur).

COMMERCIAL ACTIVITY carried out at Vega Refinery (in Ploieşti)

The sales of Vega Refinery in Ploieşti in the first half of 2017 amounted to a total of 151,230 tons. By sales market, the external sales were higher (63%) than the internal ones (37%). 95,591 tons were sold on the external market.



White product sales (gasoline naphtha, ecologic solvents, n-hexane, white spirit) represented about 70% of the total sales in first half of 2017.



The main external sales markets were Turkey, Germany, Hungary, India, Russia, Bulgaria.

COMMERCIAL ACTIVITY carried out in Petrochemicals Area

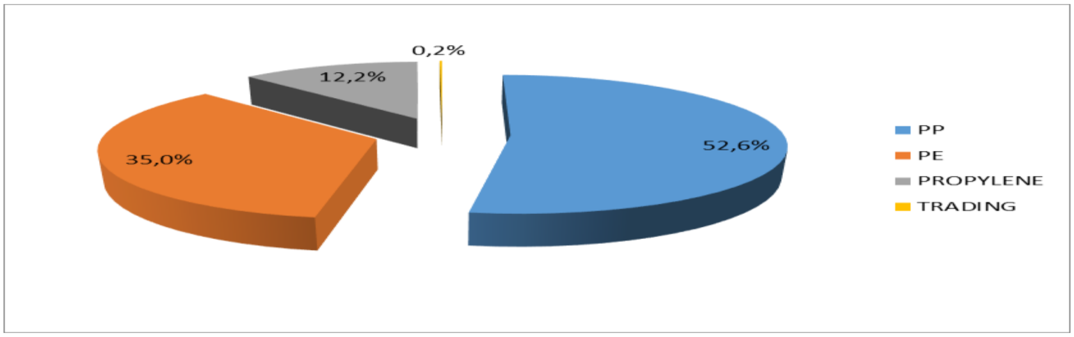
Rompetrol Rafinare – Petrochimicals Area is the single producer of polypropylene (PP) and polyethylene (LDPE) in Romania.

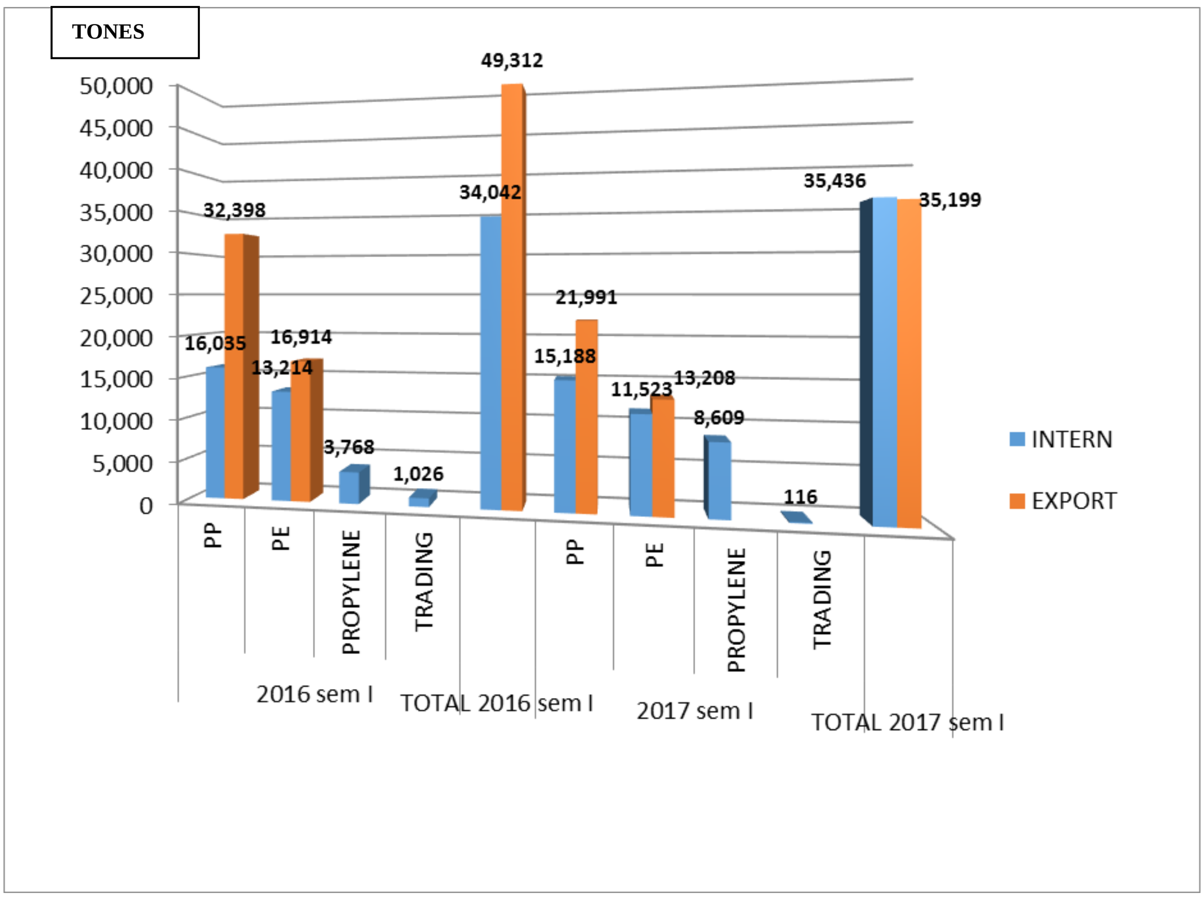
During the analysis, the petrochemical activity was carried out through PP and LPDE installations.
Besides its own products, the company also caries out important trading in a wide range of petrochemicals which currently are not part of the production portfolio of Rompetrol Rafinare – Petrochemicals Area, but for which a demand exists on the Romanian market: types of high density polyethylene (HDPE types of pipes), low density polyethylene (LDPE) and PET.

The sales of the Petrochemicals Area in the first half of 2017 amounted to a total quantity of 70.635 tones, down by 15% over the same period of last year. The main reason for this decline is the level of polymer production that was below the first half of 2016.

Internal sales of produced polymers decreased by approx. 9% as compared to internal sales in the first half of 2016, whereas the external sales decreased by approx. 29% as compared to external sales in the same period of last year.

In the first half of 2017, approx. 53% of the total sales were represented by polypropylene (PP), approx. 35% by polyethylene (PE: LDPE şi HDPE) and the remaining 12% represents the sales of propylene and trading activity.





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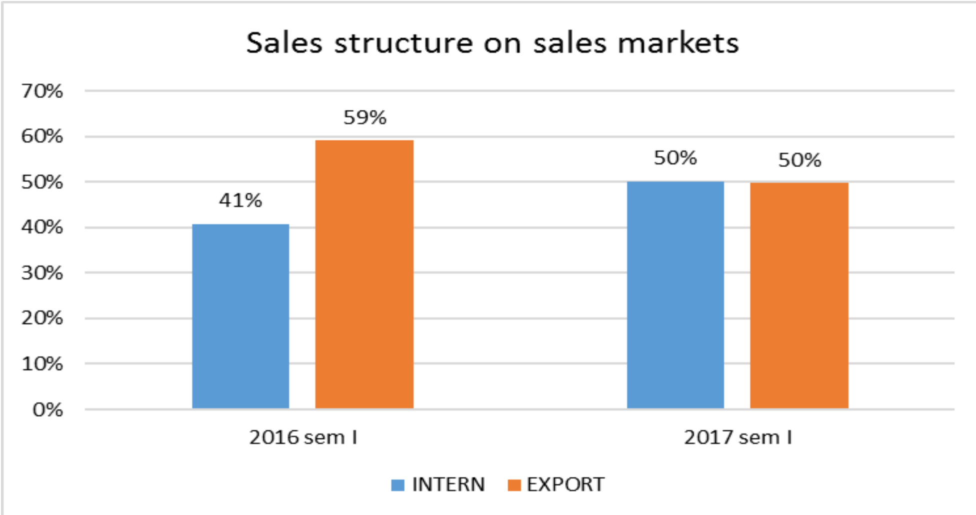
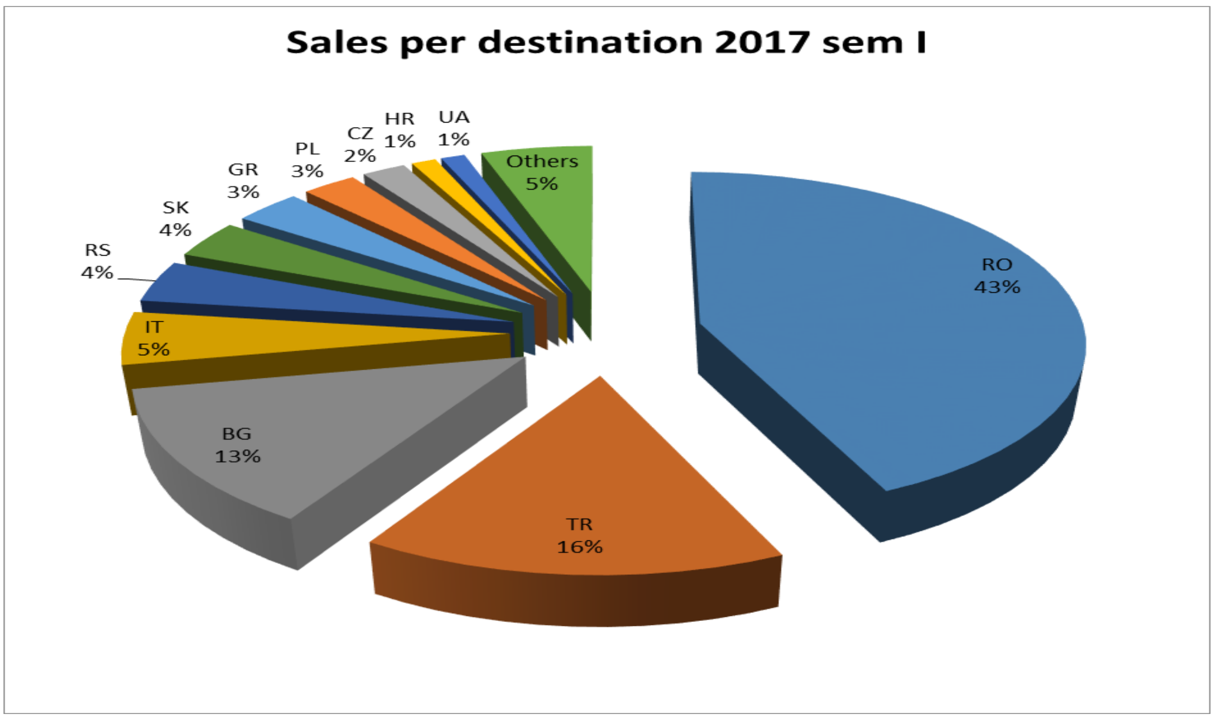
Out of total sales, approx. half is the domestic market and the other half represents exports. There is a change in the sales structure over the similar period last year in terms of distributing a larger percentage of products on the domestic market.



The most important distribution channels for polymers are Romania, Turkey, Bulgaria, Italy.



1. The economic and financial situation

The turnover registered as of 30.06.2017 amounts to RON 4,729,016,743, as compared to RON 4,133,145,499, reached in the first semester of 2016 (rising by 14.4%), even though a lower quantity of crude oil and of other raw materials (and implicitly quantities of production and sales) was processed than in the first semester of 2016 (approx. 13% less) at the level of the Petromidia Refinery because of the planned shutdown from May 2017. The quantity of finished products obtained has decreased accordingly, however the sales, even though in lower quantities than in the first semester of 2016, have cumulated a net value higher that in the first half of 2016. The greater value obtained in 2017 is owed to the higher rates on the international markets as compared to 2016.

In the first semester of 2017, the Company has registered net profit amounting to RON 171,150,855 and, in the first semester of 2016, it registered profit amounting to RON 142,866,645. The result net positive registered in the first semester of 2017 was mainly owed to gains from favorable foreign exchange differences.

We must mention that, from the operating activity, the Company has registered losses amounting to RON 20,856,943, as compared to the similar period in 2016 when Rompetrol Rafinare registered profit of RON 136,769,268. From the point of view of the exploitation activity, the planned stoppage period had a negative impact compared to the first semester of 2017.

During the first semester of 2017, financial revenues have exceeded the financial expenses, in the end obtaining gross profit from financial activities amounting to RON 192,007,798 (the major impact arising from favorable foreign exchange differences).

The financial indicators registered as of 30.06.2017 include the results from the activity of the Refinery and Petrochemistry Plants on the Navodari platform, as well as of the Vega Refinery in Ploiesti.

a) Balance sheet indicators:

At the end of the first semester of 2017, the Company’s non-current assets amount to RON 4,914,544,154, slightly lower as compared to 30.06.2016.

As of June 30th, 2017, current assets are in amount of RON 1,973,097,174, registering an increase of approximately 5% more than the level at the end of2016.
This is mainly due to the increase in value of the receivables (from RON 1,018,626,207 at 31.12.2016 to RON 1,239,090,639 at 30.06.2017).

The liabilities payable in a period of 1 year have increased from RON 4,905,516,693 as of 31.12.2016 to RON 5,086,010,424 as of 30.06.2017 (by 3.7%). This increase is mainly due to reclassification of the long-term loan in the short-term loan for the balance use of the Syndicated Loan, taking into account that on 30.06.2017 the maturity term (April 23, 2018) is less than 1 year.

As far as provisions are concerned, as of 30.06.2017, they register a similar level as of 31.12.2016.

Balance sheet indicators

	(RON) **June 30th, 2017**	***(RON)*** **December 31st, 2016**
Intangible assets	15,613,500	16,724,850
Goodwill	152,720	152,720
Property, plant and equipment	2,998,384,365	3,018,053,823
Financial assets	1,629,020,055	1,629,020,055
Deferred tax asset	271,373,514	271,373,514
Total non current assets	**4,914,544,154**	**4,935,324,962**
Inventories, net	724,322,835	816,627,179
Receivables and prepayments, net	1,239,090,639	1,018,626,207
Derivative Financial Instruments	1,292,281	22,980
Cash and cash equivalents	8,391,419	45,891,549
Total current assets	**1,973,097,174**	**1,881,167,915**

	(RON) June 30th, 2017	(RON) December 31st, 2016
TOTAL ASSETS	**6,887,641,328**	**6,816,492,877**
Subscribed share capital	4,410,920,573	4,410,920,573
Share premium	232,637,107	232,637,107
Other reserves	3,170,938,161	3,169,670,514
Accumulated losses	(6,486,327,206)	(6,556,328,713)
Current year result	171,150,855	70,001,508
Total equity	**1,499,319,490**	**1,326,900,989**
Long-term borrowings from banks	-	281,763,783
Provisions	302,311,412	302,311,412
Total non-current liabilities	**302,311,412**	**584,075,195**
Trade and other payables	3,696,044,666	3,750,363,002
Short-term borrowings from affiliates	859,686,316	1,065,970,431
Short-term borrowings from banks	530,279,444	89,183,260
Total current liabilities	**5,086,010,426**	**4,905,516,693**
TOTAL LIABILITIES AND EQUITY	**6,887,641,328**	**6,816,492,877**

On June 30, 2017, following the recording of positive financial results for the first half of 2017, the equity (net asset) level was higher than the value recorded on 31.12.2016, At the same time, on June 30, 2017, the value of the equity (net asset) was less than half of the share capital. According to Law 31/1990, legal measures are required to regulate the net asset versus share capital ratio.

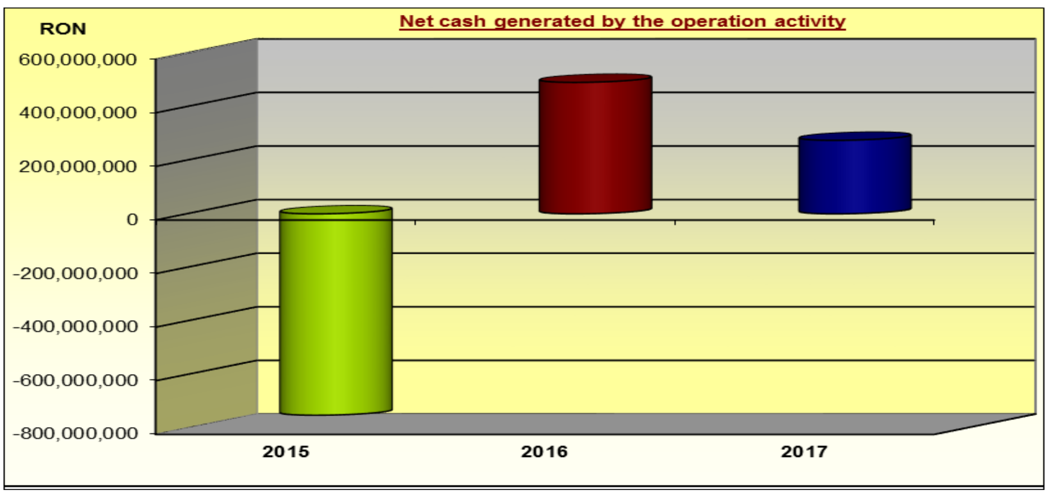
b) Financial indicators

	(RON) January-June 2017	(RON) January-June 2016
Net turnover	**4,729,016,743**	**4,133,145,499**
Gross revenues from the sale of finished oil products	6,248,530,571	5,947,713,847
Revenues from the sale of other merchandise	7,073,624	3,311,207
Revenues from the sale of utilities	4,080,025	4,141,170
Revenues from the sale of other products	761,882	271,635
Revenues from rents and other services	7,084,350	7,101,488
Gross turnover	**6,267,530,452**	**5,962,539,347**
Minus sale-related taxes	(1,538,513,709)	(1,829,393,848)
Total	**4,729,016,743**	**4,133,145,499**
Cost of sold production out of which	**(4,589,342,718)**	**(3,909,427,704)**
Crude oil and other raw materials	4,202,246,667	3,516,844,136
Utilities	162,530,968	169,473,810
Gross profit / (loss)	**139,674,025**	**223,717,795**
Commercialization and general administrative expenses	(135,456,052)	(106,713,648)
Other operating revenues / (expenses)	(25,074,916)	19,765,121
Operating profit / (loss)	**(20,856,943)**	**136,769,268**
Financial expenses	(83,461,563)	(60,482,772)
Financial revenues	38,090,988	9,274,823
(Losses) / gains from foreign exchange differences, net	237,378,373	57,305,326
Gross profit / (loss) from financial activity	**171,150,855**	**142,866,645**

The individual financial statements in this report are drafted in accordance with the International Financial Reporting Standards and have not been audited

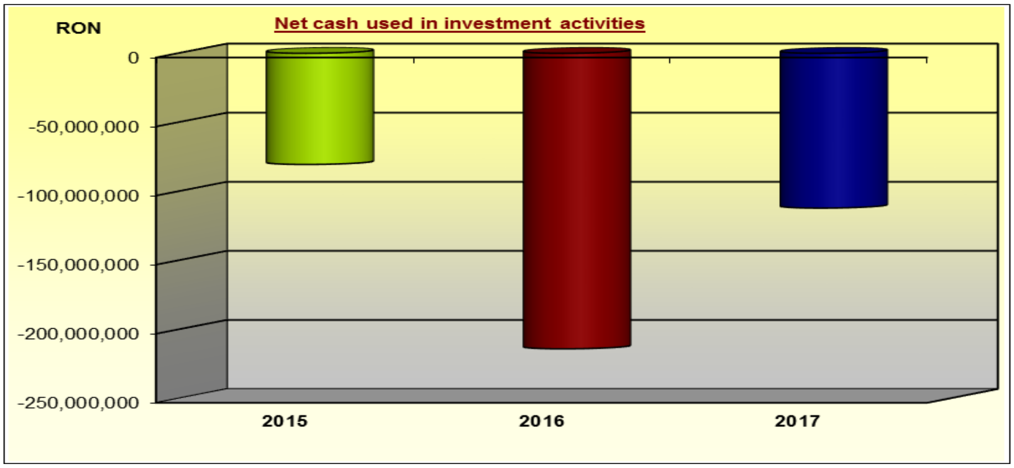
c) cash flow: all the changes occurred at the cash level within the basic business, financial investments and operations, the cash level at the beginning and at the end of the period

In 2017, the net situation of cash flows reflects the company's effort to harmonize efficiently the cash needs from the operating activity with a balanced funding policy.
Cash flows from the operating activity have been influenced by both the increase of trade receivables and by the increase of inventories and of trade payables. At the end of the first semester of 2017, the Brent quote of crude oil has reached USD 47.39/barrel, as compared to the end of the first semester of 2016 when it amounted to USD 48.44/barrel.

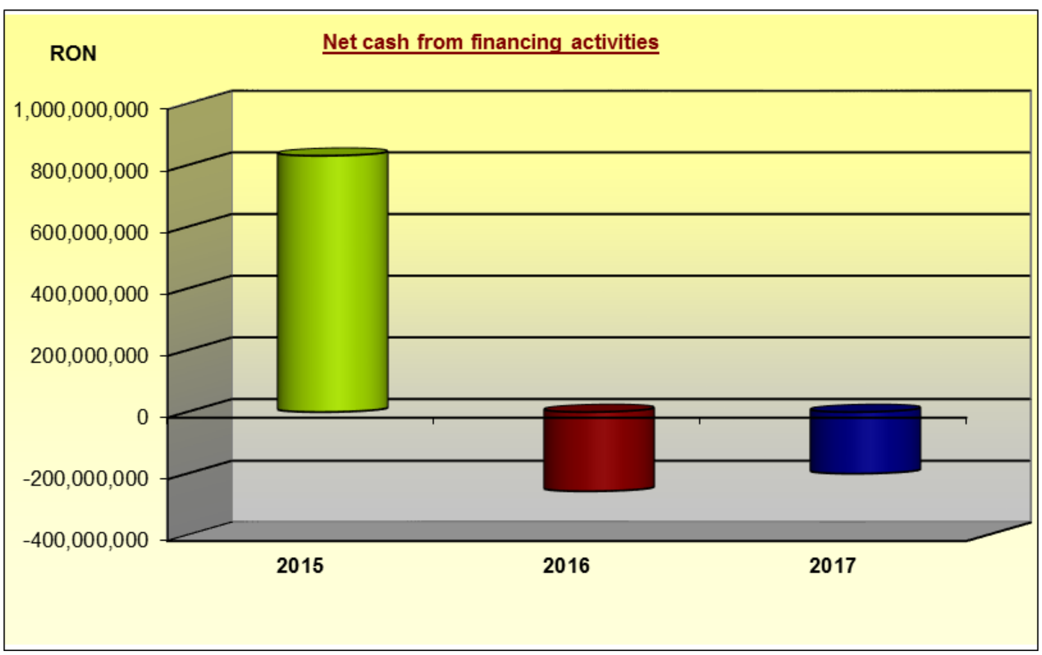


In the first semester of 2017, Rompetrol Rafinare has continued the technological investment projects, for complying and alignment with the legislation in force, a permanent preoccupation being the aligning to the European Union requirements and complying with the requirements of the Directives concerning the promotion and use of bio fuels and of the environmental norms in force, especially for reducing the emissions of nitrogen and sulphur oxides, of volatile organic compounds and of carbon dioxide and concerning the storage of dangerous waste.

The main project in progress is referring to the general maintenance project "Refinery Shutdown 2017" was continued, to ensure a high level of safety for the equipment in operation.



In the first semester of 2017, the Company has continued to benefit from a cash pooling contract – a system to optimize the petty balances, in order to support both the needs generated by the exploitation and investment activity, as well as from a syndicated loan facility granted by a consortium of banks. In addition, the cash from the funding activity was also influenced by the high exposure on the short-term loan facility from Bancpost. During the first semester of 2017, the Company has reduced its liabilities related to loans from affiliates, increasing the exposure on bank loans.



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2. Analysis of the company's activity

In the first semester of 2017, the Company has registered net profit amounting to RON 171,150,855 and, in the first semester of 2016, it registered profit amounting to RON 142,866,645. The result net positive registered in the first semester of 2017 was mainly owed to gains from favorable foreign exchange differences.

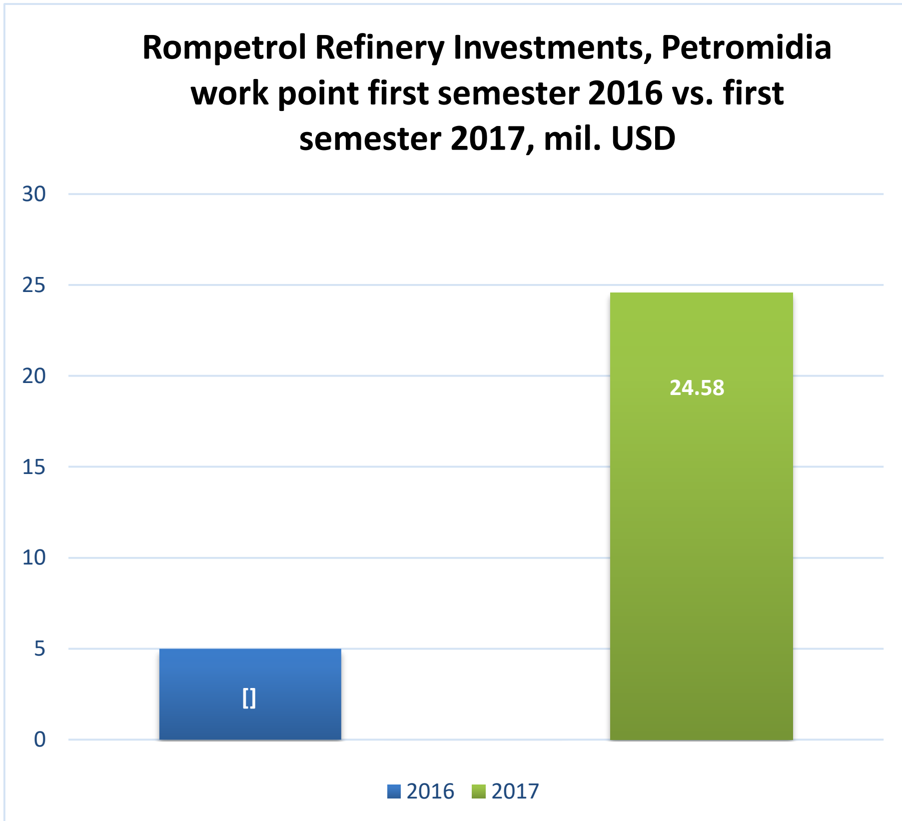
2.1. From the liquidities point of view, the Company has made efforts to maintain the capacity to cover all current liabilities from the current assets, the current ratio registering an improvement as compared to the same period of the prior year, namely of 0.44 in the first semester of 2017 as compared to 0.38 in the first semester of 2016.

Impact factors on the company's liquidity refer to current assets and liabilities that are directly influenced by the specificity of activity and fluctuation in oil purchase prices and petroleum products sale prices.

2.2. Between **January and June 2017**, the company has made investments in a total amount of approx. **USD 27.49 million**.

Out of this amount, **USD 24.58 million** was used by Petromidia Refinery in its investment projects described in the "Objectives of the Investment Program" Section.

A comparative analysis of the investments in the first half of 2016 vs. the first half of 2017 for both the Petromidia and VEGA refineries is shown in the diagrams below:



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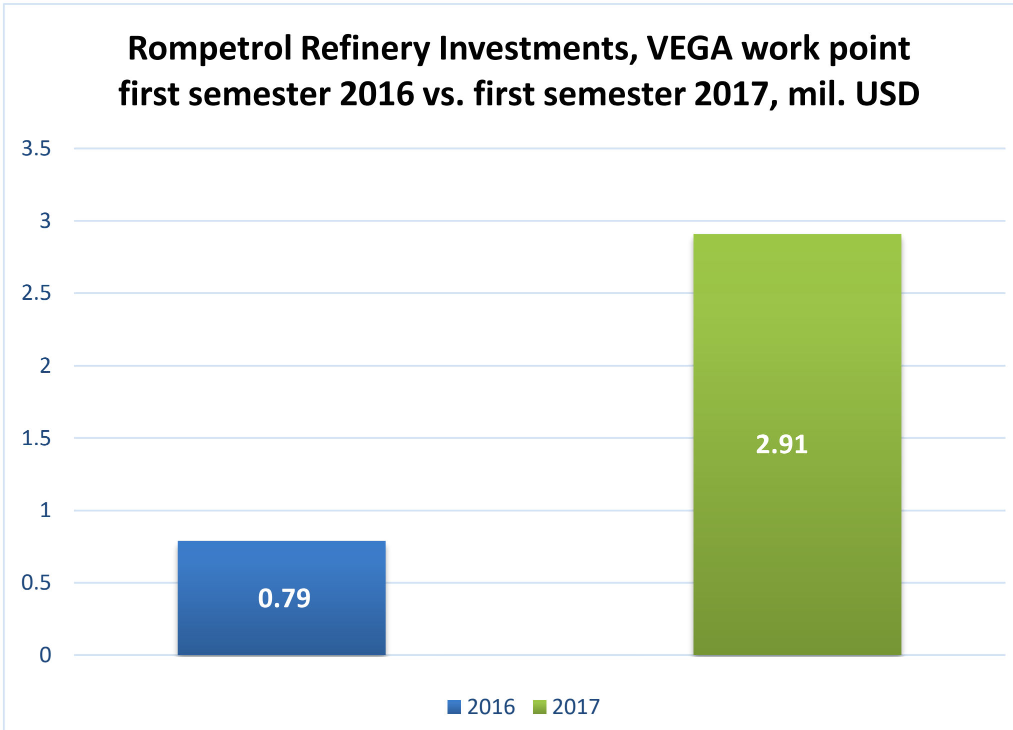

2.3. In the first semester of 2017, the net turnover has increased by 14.4% as compared to the similar period of the previous year because of the higher quotes on the international markets of the oil products sold as compared to the first semester of 2016. Even though the quantity of crude oil and raw materials processed in the first semester of 2017 was smaller than the similar period of the prior year, the turnover has experienced an increase, mainly as a result of the increase of the finished products' (diesel fuel and gasoline) average sales prices.

The quantity of processed crude oil was smaller by 539 thousand tons than in the first semester of 2016.

3. Changes affecting the capital and the Company management

3.1. During the period that was analysed, was any cases of impossibility to The company has complied with all its financial obligations for semester I 2017.

3.2. There have occurred no modifications designed to influence the value of the Company's share capital within the analysed period.

On June 30, 2017, the Company's share capital recorded at Depozitarul Central S.A. consisted of 44,109,205,726 shares with nominal value of 0.10 RON/ share, amounting 4,410,920,572.60 RON.

According to the Shareholders' Register consolidated on June 30, 2017, issued by Depozitarul Central S.A., the consolidated synthetic structure of the ROMPETROL RAFINARE S.A. shareholders is the following:

SHAREHOLDER (on June 30, 2017)	**NUMBER OF SHARES** (on June 30, 2017)	**PERCENTAGE OF PARTICIPATION IN SHARE CAPITAL** (on June 30, 2017)
KMG INTERNATIONAL N.V.	21,222,506,422	48.1136%
The ROMANIAN STATE represented by the Ministry of Energy	19,715,009,053	44.6959%
Shareholders - Legal persons - each holding less than 10% of the share capital, together holding:	2,917,302,829	6.6138%
Shareholders - Physical persons - each holding less than 10% of the share capital, together holding:	254,387,422	0.5767%
TOTAL	44,109,205,726	100%

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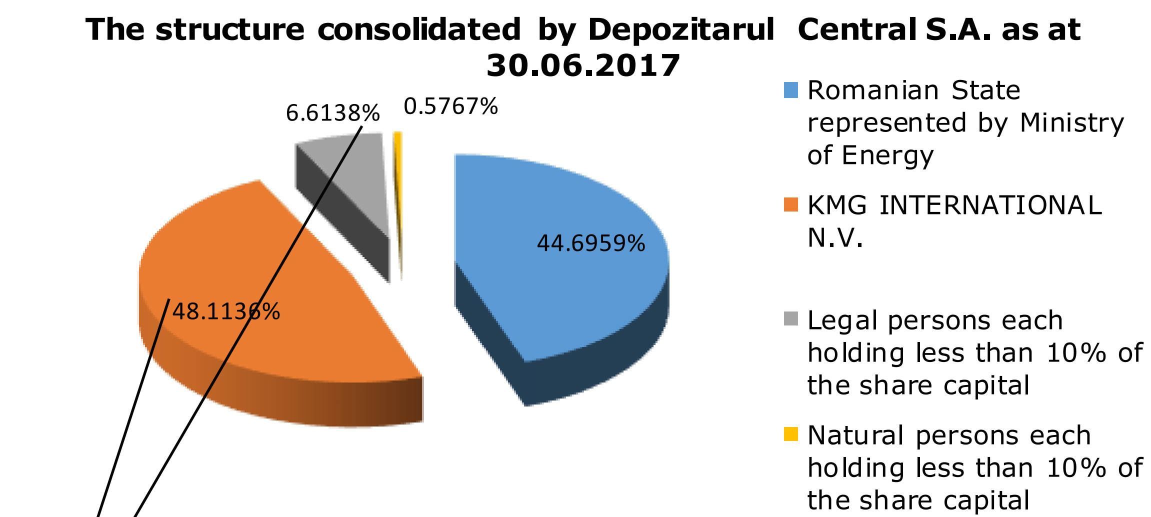

Note:
As at 30.06.2017, the shareholders belonging to the KMG International group hold 24.098.569.799 shares, representing 54.6339% of shares capital of Rompetrol

We specify that Rompetrol Rafinare S.A. (part of KMG International Group) operates the Petromidia and Vega Refineries and holds an executive position in the following companies:

directly:

- Rompetrol Downstream S.R.L. (99.994688898% holding)
- ROM OIL S.A. (99.9998505% holding)
- Rompetrol Quality Control S.R.L. (70.91%)a
- Rompetrol Logistics S.R.L (66.1911% holding)
- Rompetrol Petrochemicals S.R.L. (100% holding)

indirectly:

- Global Security Sistem S.A. (by Rompetrol Logistics S.R.L.);
- Rompetrol Gas S.R.L. (by Rompetrol Logistics S.R.L.).

As a result, the holdings of Rompetrol Rafinare S.A. shareholders are automatically reflected upon the companies where Rompetrol Rafinare holds an executive position, directly and indirectly. Rompetrol Rafinare operates the Petromidia and Vega Refineries, Rompetrol Downstream operates the Rompetrol gas stations network, and Rom Oil operates the company's warehouses network.

With reference to the modifications within the Company's administration:

- **Modifications in the componence of the Administration Board**

- By Decision no. 1 adopted by the Administration Board (hereinafter referred to as **"the Board"**), on February 10, 2017, the Board recorded the request compiled by Mr. Azamat Zhangulov and determined the termination of service, respectively of exercise of the administration position and the Administration Board President position by Mr. Azamat Zhangulov, starting with February 2, 2017.
By the same Decision no. 1 of February 10, 2017, under art. 137^2 of Law no. 31/1990 and art. 14.6 of the Company's updated Articles of incorporation, by the unanimous vote of the four administrators holding office on the date of this decision, starting with February 10, 2017, **it is approved the designation of Mr. Alexey Golovin**, citizen of Kazakhstan, **as provisory member of the Company's Administration Board. Moreover, it is approved that Mr. Alexey Golovin shall exercise the position of provisory administrator until the date of adoption of Company Shareholders' Decision concerning the election of a new permanent administrator for the Company.**

As a result of the fact that by Decision no. 1 of the Administration Board, as of February 10, 2017, it is recorded the termination of Mr. Azamat Zhangulov's service as president of the Administration Board and it is approved the nomination/ designation of Mr. Alexey Golovin as provisory administrator, on the grounds of Decision no. 2 of February 10, 2017, **the Company's Administration Board has elected Mr. Cătălin Dumitru, Romanian citizen, for the Administration Board president position. Therewith it is established that Mr. Cătălin Dumitru's presidency mandate for the Administration Board shall begin on February 10, 2017 and expire on April 30, 2018 (date of expiry of administrator mandate).**

By Decision no. 1/2017 adopted by the Ordinary General Meeting of Shareholders on April 13, 2017, **it is approved the termination of the administration and presidency mandate of Mr. Azamat Zhangulov for the Company's Administration Board, as a result of his request of withdrawing from this position as of February 2, 2017.**

By the same Decision no. 2/2017, it is approved the election of Mr. Alexey Golovin as permanent member of the Company's Administration Board, for a mandate starting as of April 13, 2017 and expiring on April 30, 2018 (date of expiry of the mandate of current Administration Board members).

The Company Administrators holding office on June 30, 2017, are:

- Mr. Cătălin Dumitru - President of Administration Board;
- Mr. Alexey Golovin - Member of Administration Board;
- Mr. Yedil Utekov - Member of Administration Board;
- Mr. Marius Mitruș - Member of Administration Board;
- Mr. Mihai Mihalache - Member of Administration Board;

- **Modifications concerning the Executive**

There have been no modifications in the Company's executive structure during the analysed period.

On June 30, 2017, the two managers appointed for the executive positions to the meaning set out above, were:

Last name and first name	Position
Yedil Utekov	General manager
Vasile Gabriel Manole	Economic manager

The members of the executive exercise their positions for a mandate expiring on April 30, 2018 (together with the appointing administrators).

- **Modifications concerning the Company's Financial Auditor**

In the analysed period, there occurred the Ordinary General Meeting of Shareholders on April 13, 2017, which, by Decision no. 2/2017 approved the nomination of company ERNST & YOUNG ASSURANCE SERVICES SRL (headquartered in Bucharest Tower Center, bd. Ion Mihalache nr. 15-17, etaj 21, sector 1, Bucharest, registered with the Trade Register under no. J40/5964/1999, with sole registration code 11909783, member of the Chamber of Financial Auditors of Romania under authorisation no. 77 of August 15, 2001, represented by Mrs. CORA ANAMARIA, born in sector 3, Bucharest municipality, on March 16, 1975, with domicile in sector 3, Drm. Malu Spart, nr. 88C, sector 3, Bucharest, owner of identity card series RR no. 778776 issued by SPCLEP sector 3 on July 27, 2011) **as financial auditor for the Company for the fiscal year 2017, with an audit agreement term of one year.**

4. Considerable transactions

Rompetrol Rafinare reported the legal documents concluded throughout semester I 2017 by the Company, in conformity with art. 225 of Law 297/2004 concerning the capital market, art. 82 of Law no. 24/2017 and art. 113 letter G of C.N.V.M. (Romanian National Securities Commission) Regulation no. 1/2006, by the current Reports recorded at the Company under no. 5147 of May 30, 2017, no. 5850 of June 22, 2017, no. 6766 of July 19, 2017, no. 6784 of July 20, 2017. The reports have been transmitted to the market operator (respectively to the Bucharest Stock Exchange), posted on the company's website in section Relations with Investors www.rompetrol-rafinare.ro subsection Current reports and on ASF website (www.asfromania.ro) in section: Supervision/ Capital markets/ Electronic reports.

Moreover, the primary transactions concluded by the Company with persons acting concertedly or the transactions involving these persons within the reported period were the transactions subject to approval by the Administration Board, in conformity with the legal provisions and dispositions of the Articles of incorporation, as follows:

- On May 11, 2017, the Administration Board adopted the Decision no. 2 which, by unanimous votes expressed by the administrators, **approved the conclusion of Addendum no. 2 of April 21, 2017 for an extension of 1 (one) year, respectively until April 23, 2018, of the Non-Employed Auxiliary Facility, overdraft,** amounting up to $ 25,000,000, granted under the auxiliary facility agreement of May 18, 2015, **concluded with Banca Comercială Română S.A.**

The above mentioned facility is a component of the Loan facility agreement governed by the English law, amounting maximum up to $ 360,000,000 ("Loan Facility Agreement") - approved by Company's Administration Board Decision of February 17, 2015 and ratified by Decision no. 3/2015 adopted by the Extraordinary General Meeting of Company's Shareholders of April 29, 2015 - concluded on April 23, 2015 between the Company, as primary borrower, secondary borrower and guarantor, together with the following companies within the KMG International Group:

(i) Rompetrol Downstream S.R.L., a limited liability company, with registered office in Bucharest, Sector 1, City Gate Northern Tower, Piața Presei

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Libere nr. 3-5, etaj 2, registered with the Trade Register under no. J40/1716/2000, with sole registration code 12751583 (**"Rompetrol Downstream"**), as primary borrower, auxiliary borrower and guarantor,

(ii) KazMunayGas Trading AG, company registered in Switzerland, with registered office in VIA Cassarinetta 9, CH - 6900 Lugano, Switzerland, registered with the Trade Register under no. CHE-112.088.806 (**"KazMunayGas Trading"**), as primary borrower and guarantor,

(Companies Rompetrol Downstream and KazMunayGas Trading being collectively **"Primary Borrowers"**),

(iii) KMG Rompetrol S.R.L., a limited liability company, with registered office in Bucharest, sector 1, Piața Presei Libere nr. 3-5, City Gate Northern Tower, etaj 5, room 2, registered with the Trade Register under no. J40/9817/2010, with sole registration code 27516586 (**"KMG Rompetrol"**), as auxiliary borrower and guarantor,

(Companies Rompetrol Downstream and KMG Rompetrol being collectively **"Auxiliary Borrowers"**),
(Primary Borrowers and Auxiliary Borrowers being collectively **"Borrowers"**),

(iv) KMG International N.V., a joint-stock company under the Dutch legislation, with registered office in Strawinskylaan 807, Tower A-8, 1077XX Amsterdam, the Netherlands, registered with the Trade Register of the Chamber of Commerce of Amsterdam under no. 24297754 (**"KMG International"**), as guarantor,
on one side, and:

(v) Banca Comercială Română S.A., as primary arranger empowered as coordinator, Primary Lender and Auxiliary Lender, together with Raiffeisen Bank S.A., ING Bank NV, Bucharest Branch, each as empowered primary arranger, Primary Lender and Auxiliary Lender, UniCredit BANK S.A. as empowered primary arranger, Primary Lender, Auxiliary Lender, securities agent and issuing bank, and Unicredit Bank AG, London Branch, as facility agent,
on the other side,

The loan facility of up to $ 360,000,000 put at disposal based on the Loan Facility Agreement and Auxiliary Documents (compound of two tranches), as follows:
(a) **Tranche A**: engaging facility of up to $ 240,000,000 (**"Primary Facility"**) which is put at disposal by the Primary Lenders and which shall be used by

the Primary Borrowers, in USD, EUR or RON, by the means of drawdown and issuing of bills of credit and letters of indemnity by UniCredit Tiriac Bank S.A. There exists a sub-limit of $ 150,000,000 as maximum cumulated amount of all bills of credit and letters of indemnity; the interests applied to the drawdowns are LIBOR/ EURIBOR/ ROBOR 1M + 2.75%; The Maturity of the Primary Facility is 3 years from the date of the agreement, respectively until April 23, 2018.
and

(b) **Tranche B**: a non-engaging facility of up to $ 120,000,000 (**"Auxiliary Facility"**), put at disposal by the Auxiliary Lenders and which is used by the Auxiliary Borrowers, in USD, EUR or RON, by the means of (i) overdraft facilities; (ii) facilities granted based on securities, bonds, documentary or stand-by bills of credit; and (iii) any other facilities or loans required in relation to the activity developed by any of the Auxiliary Borrowers, agreed upon by the Auxiliary Lender and Auxiliary Borrower.

Currently, Rompetrol Rafinare SA has four concluded auxiliary facilities (overdraft) of $ 25,000,000 each, under the following conditions:

- For the facilities granted by Banca Comercială Română S.A. and ING Bank NV Amsterdam - Bucharest Branch, the applied interests are: ROBOR 1M + 2% for RON drawdowns and LIBOR/ EURIBOR 1M + 2.5% for USD and EUR drawdowns.

- For the facility granted by Unicredit Bank SA, the applied interests are: ROBOR O/N + 2% for RON drawdowns and LIBOR/ EURIBOR O/N + 2.5% for USD and EUR drawdowns.

- For the facility granted by Raiffeisen Bank SA, the applied interests are: ROBOR 1M + 2% for RON drawdowns and LIBOR/ EURIBOR 1W + 2.5% for USD and EUR drawdowns.

5. Subsequent events

On July 17, 2017, Rompetrol Rafinare SA and the affiliates thereof KMG International NV and Oilfield Exploration Business Solutions SA received an ordinance issued by DIICOT which mandates the continuation of the criminal investigation of deeds attributed to the 1998-2003 period and of the grounds for the company's civil liability for part thereof.

As before, the company will further cooperate with the authorities in a transparent with the aim that the investigations complete in in due course and in full observance of the company's rights.

This new procedural deed does not affect the daily actitiy of Rompetrol refineries the operations of which are being carried out in the normal course.

However, the company continues to work with its local and international legal advisors to use all legal means to protect its investments, activities and current operations as well as its reputation.

The company will provide further information once there will be clarified the apects related to the company's liability for the deeds currently pending investigation.

The national oil and gas company of Kazakhstan - KazMunayGas became in August 2007 the majority shareholder, and in 2009 the sole shareholder, of The Rompetrol Group (currently named KMG International NV) that the company is a part of.

6. Administration Board measures for balancing the Company's net worth indicator

As:

(i) according to Rompetrol Rafinare S.A. financial status for the year 2015, the net worth has decreased to less than half of the Company's issued share capital;

(ii) according to art. 153[24] of Companies Law no. 31/1990 (hereinafter referred to as **"Companies Law"**), if the Administration Board ascertains that the company's net worth, determined as the difference between the total of assets and the total of its debts, has decreased to less than half of the issued share capital, it shall call an extraordinary general meeting of shareholders in order to decide if the Company needs to be dissolved,

The Company's Administration Board ("the Board") has undertaken the following steps, namely:

1. On November 10, 2016, the Board decided to call the Extraordinary General Meeting of Shareholders to confirm the continuance of the Company's activity and to approve the date of December 31, 2017 as deadline for the Company for the adoption of all measures required for the resolution of this circumstance;

On December 19, 2016, the Extraordinary General Meeting of Company's Shareholders confirmed the continuance of the Company's activity and approved the date of December 31, 2017 as deadline for the Company for the adoption of all measures required for the resolution of this circumstance;

2. Subsequently, the Administration Board internally analyzed the options for recovering the net asset, namely: increase of share capital, decrease of share capital, revaluation of fixed assets and debt restructuring. In addition, for proactivity and diligence purposes, the Company's Administration Board undertook various steps related to this subject as follows:

   (i) it has empowered external attorneys to analyse the Company's net worth adjustment methods in order to comply with the provisions of art. 153^{24} of Companies Law;

   (ii) it has requested from a reputable third party specialized company a report for the analysis of the extent to which the existing circumstance could be resolved by the reassessment of Company's assets;

   (iii) it has requested from a reputable third party specialized company to compile a report describing the impact of the undersigned's share capital reduction procedure upon the Company's shareholders, from the point of view of accountancy..

3. Given the above mentioned, only the Company's shareholders have the right to adopt a decision regarding the means of restructuring the net worth in order to represent at least half of the share capital; further the shareholders shall be called for a meeting to make a decision, based on the mandates granted at that moment;

4. Consequently, the Board set forth that, in the following period, it shall call for a new extraordinary general meeting of shareholders for the Company's shareholders' approval of the available options so that the Company's net worth be restructured until December 31, 2017, to a value at least equal to half of the share capital.

Note:
I) During the period, the Company's Articles of Incorporation were not amended.

II) The individual financial statements were drafted in accordance with the International Financial Reporting Standards and have not been audited.

Chairman of the Board of Directors
of ROMPETROL RAFINARE S.A.

____
Cătălin DUMITRU

Chief Executive Officer	**Chief Financial Officer**
_________________	_________________
Yedil UTEKOV	Vasile-Gabriel MANOLE

ROMPETROL RAFINARE SA

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

JUNE 30, 2017

CONTENTS	**PAGE**

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

	Notes	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
		USD	USD	RON	RON
Intangible assets	3	7,558,830	7,265,762	30,171,069	29,001,289
Goodwill	4	82,871,706	82,871,706	330,782,416	330,782,416
Property, plant and equipment	5	1,119,368,049	1,138,146,913	4,467,957,568	4,542,913,403
Available for sale investments	7	18,583	18,583	74,174	74,174
Long-term receivable		1,604,312	1,480,888	6,403,611	5,910,964
Deferred tax asset	13	63,468,579	63,468,579	253,334,834	253,334,834
Total non current assets		**1,274,890,059**	**1,293,252,431**	**5,088,723,672**	**5,162,017,080**
Inventories, net	8	226,157,044	230,091,565	902,705,842	918,410,482
Trade and other receivables	9	390,035,870	287,577,488	1,556,828,176	1,147,865,544
Derivative financial instruments	29.5	401,671	5,340	1,603,270	21,315
Cash and cash equivalents	10	6,807,345	15,810,298	27,171,518	63,106,805
Total current assets		**623,401,930**	**533,484,691**	**2,488,308,806**	**2,129,404,146**
TOTAL ASSETS		**1,898,291,989**	**1,826,737,122**	**7,577,032,478**	**7,291,421,226**
Share capital	11	1,463,323,897	1,463,323,897	5,840,857,335	5,840,857,335
Share premium	11	74,050,518	74,050,518	295,572,643	295,572,643
Other reserves	11	(2,738,264)	(3,452,149)	(10,929,781)	(13,779,253)
Other reserves - Hybrid instrument	11	1,000,000,000	1,000,000,000	3,991,500,000	3,991,500,000
Effect of transfers with equity holders	11	(596,832,659)	(596,832,659)	(2,382,257,558)	(2,382,257,558)
Accumulated losses		(1,473,246,436)	(1,529,316,646)	(5,880,463,149)	(6,104,267,390)
Current year result		(8,087,790)	56,070,210	(32,282,413)	223,804,240
Equity attributable to equity holders of the parent		**456,469,266**	**463,843,171**	**1,821,997,077**	**1,851,430,017**
Non-Controlling interest		15,838,745	14,781,091	63,220,351	58,998,725
Total equity		**472,308,011**	**478,624,262**	**1,885,217,428**	**1,910,428,742**
Long-term borrowings from banks	12	-	193,162,805	-	771,009,336
Deferred tax liabilities	13	306,570	306,570	1,223,674	1,223,674
Provisions	16	74,981,195	76,429,343	299,287,439	305,067,723
Other non-current liabilities		190,173	177,110	759,076	706,935
Total non-current liabilities		**75,477,938**	**270,075,828**	**301,270,189**	**1,078,007,668**
Trade and other payables	14	879,855,508	788,571,675	3,511,943,264	3,147,583,846
Derivative financial instruments	29.5	-	323,130	-	1,289,773
Short-term borrowings from shareholders and related parties	15	233,733,109	268,253,969	932,945,702	1,070,735,716
Short-term borrowings from banks	15	236,917,423	20,888,258	945,655,895	83,375,481
Total current liabilities		**1,350,506,040**	**1,078,037,032**	**5,390,544,861**	**4,302,984,816**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,898,291,989**	**1,826,737,122**	**7,577,032,478**	**7,291,421,226**

CATALIN DUMITRU
PRESIDENT of the BOARD of DIRECTORS

YEDIL UTEKOV
CHIEF EXECUTIVE OFFICER

VASILE-GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

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

	Notes	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Revenues	17	1,274,423,444	1,153,144,118	5,086,861,177	4,602,774,746
Cost of sales	18	(1,175,922,909)	(1,033,407,093)	(4,693,696,291)	(4,124,844,413)
Gross profit		**98,500,535**	**119,737,025**	**393,164,886**	**477,930,333**
Selling, general and administrative expenses, including logistic costs	19	(88,165,446)	(78,602,299)	(351,912,378)	(313,741,076)
Other operating income/(expenses), net	20	(2,900,402)	1,317,335	(11,576,954)	5,258,142
Operating profit		**7,434,687**	**42,452,061**	**29,675,554**	**169,447,399**
Finance cost	21	(28,805,809)	(20,774,261)	(114,978,386)	(82,920,464)
Finance income	21	15,136,581	4,634,264	60,417,663	18,497,665
Foreign exchange gain / (loss), net	21	(380,525)	(3,808,769)	(1,518,866)	(15,202,702)
Profit/(Loss) before income tax		**(6,615,066)**	**22,503,295**	**(26,404,035)**	**89,821,898**
Income tax	23	(415,070)	(471,982)	(1,656,752)	(1,883,916)
Profit/(Loss) for the year		**(7,030,136)**	**22,031,313**	**(28,060,787)**	**87,937,982**
Attributable to:					
Equity holders of the parent		(8,087,790)	21,460,687	(32,282,413)	85,660,328
Non-Controlling interests		1,057,654	570,626	4,221,626	2,277,654
Earnings per share *(US cents/share)*					
Basic	25	(0.018)	0.049	(0.072)	0.196

CATALIN DUMITRU
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ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended at June 30, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Net Gain/(Loss) for the year	**(7,030,136)**	**22,031,313**	**(28,060,787)**	**87,937,982**
Other comprehensive income				
Hedge reserve	713,885	(878,704)	2,849,472	(3,507,347)
Other comprehensive income (loss) for the year, net of tax	713,885	(878,704)	2,849,472	(3,507,347)
Total comprehensive loss for the year, net of tax	**(6,316,251)**	**21,152,609**	**(25,211,315)**	**84,430,635**
Attributable to:				
Equity holders of the parent	(7,373,905)	20,581,983	(29,432,941)	82,152,981
Non-Controlling interests	1,057,654	570,626	4,221,626	2,277,654
Total comprehensive loss for the year	**(6,316,251)**	**21,152,609**	**(25,211,315)**	**84,430,635**

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The accompanying notes from 1 to 30 are an integral part of these consolidated financial statements.
English translation is for information purposes only. Romanian language text is the official text for submission.

ROMPETROL RAFINARE SA
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended at June 30, 2017
(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2e))

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Profit/(Loss) before income tax	**(6,615,066)**	**22,503,295**	**(26,404,035)**	**89,821,898**
Adjustments for:				
Depreciation and amortisation	47,129,958	48,330,659	188,119,223	192,911,826
Provisions for receivables and inventories (incl write-off)	3,195,053	(483,772)	12,753,054	(1,930,975)
Impairment for property, plant and equipment (incl write-off)	-	26,581	-	106,098
Late payment interest	64,289	8,956	256,610	35,748
Other financial income	(159,562)	(171,601)	(636,892)	(684,945)
Interest income	(14,977,019)	(4,462,663)	(59,780,771)	(17,812,720)
Interest expense and bank charges, net	27,951,332	20,062,408	111,567,742	80,079,102
Unrealised gains from derivatives	-	201,000	-	802,292
(Gain)/Loss on sale or disposal of property, plant and equipment	(219,134)	(123,012)	(874,674)	(491,002)
Unrealised foreign exchange (gain)/loss	8,508,044	3,487,300	33,959,858	13,919,558
Cash generated from operations before working capital changes	**64,877,895**	**89,379,151**	**258,960,115**	**356,756,880**
Net working capital changes :				
Receivables and prepayments	(318,090,528)	(152,591,040)	(1,269,658,343)	(609,067,135)
Inventories	1,069,980	(31,703,494)	4,270,825	(126,544,496)
Trade and other payables, including changes in payables for capital expenditures	278,328,097	79,820,886	1,110,946,606	318,605,061
Change in working capital	**(38,692,451)**	**(104,473,648)**	**(154,440,912)**	**(417,006,570)**
Cash payments for derivatives, net	**(5,576)**	**(1,431,960)**	**(22,257)**	**(5,715,668)**
Net cash provided by/(used in) operating activities	**26,179,868**	**(16,526,457)**	**104,496,946**	**(65,965,358)**
Cash flows from investing activities				
Purchase of property, plant and equipment	(28,650,486)	15,359,143	(114,358,417)	61,306,027
Purchase of intangible assets	(74,505)	(150,434)	(297,386)	(600,458)
Proceeds from sale of property, plant and equipment	246,958	121,995	985,733	486,943
Net cash used in investing activities	**(28,478,033)**	**15,330,704**	**(113,670,070)**	**61,192,512**
Cash flows from financing activities				
Cash pooling movement	17,910,962	36,457,239	71,491,605	145,519,069
Short - term loans (repaid to)/ received from shareholders	(26,519,206)	4,604,858	(105,851,411)	18,380,291
Short - term loans/ (repaid to) received from banks, net	22,879,423	(19,827,117)	91,323,217	(79,139,938)
Interest and bank charges paid, net	(20,975,967)	(15,599,745)	(83,725,572)	(62,266,382)
Net cash used in financing activities	**(6,704,788)**	**5,635,235**	**(26,762,161)**	**22,493,040**
Increase / (Decrease) in cash and cash equivalents	**(9,002,953)**	**4,439,482**	**(35,935,285)**	**17,720,194**
Cash and cash equivalents at the beginning of period	**15,810,298**	**6,727,079**	**63,106,803**	**26,851,136**
Cash and cash equivalents at the end of the period	**6,807,345**	**11,166,561**	**27,171,518**	**44,571,330**

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

Amount in USD

	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-Controlling interest	Total equity
December 31, 2015	**1,463,323,897**	**74,050,518**	**(1,529,316,646)**	**(596,832,659)**	**998,694,530**	**409,919,640**	**13,705,934**	**423,625,574**
Net profit for 2016	-	-	21,460,687	-	-	**21,460,687**	570,626	**22,031,313**
Other comprehensive income	-	-	-	-	(878,704)	**(878,704)**	-	**(878,704)**
Total comprehensive income	**-**	**-**	**21,460,687**	**-**	**(878,704)**	**20,581,983**	**570,626**	**21,152,609**
June 30, 2016	**1,463,323,897**	**74,050,518**	**(1,507,855,959)**	**(596,832,659)**	**997,815,826**	**430,501,623**	**14,276,560**	**444,778,183**

	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-Controlling interest	Total equity
December 31, 2016	**1,463,323,897**	**74,050,518**	**(1,473,246,436)**	**(596,832,659)**	**996,547,851**	**463,843,171**	**14,781,091**	**478,624,262**
Net loss for 2017	-	-	(8,087,790)	-	-	**(8,087,790)**	1,057,654	**(7,030,136)**
Other comprehensive income	-	-	-	-	713,885	**713,885**	-	**713,885**
Total comprehensive income	**-**	**-**	**(8,087,790)**	**-**	**713,885**	**(7,373,905)**	**1,057,654**	**(6,316,251)**
June 30, 2017	**1,463,323,897**	**74,050,518**	**(1,481,334,226)**	**(596,832,659)**	**997,261,736**	**456,469,266**	**15,838,745**	**472,308,011**

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

Amount in RON

	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2015	**5,840,857,335**	**295,572,643**	**(6,104,267,393)**	**(2,382,257,558)**	**3,986,289,216**	**1,636,194,243**	**54,707,236**	**1,690,901,482**
Net profit for 2016	-	-	85,660,332	-	-	**85,660,332**	2,277,654	**87,937,986**
Other comprehensive income	-	-	-	-	(3,507,347)	**(3,507,347)**	-	**(3,507,347)**
Total comprehensive income	**-**	**-**	**85,660,332**	**-**	**(3,507,347)**	**82,152,985**	**2,277,654**	**84,430,635**
June 30, 2016	**5,840,857,335**	**295,572,643**	**(6,018,607,061)**	**(2,382,257,558)**	**3,982,781,869**	**1,718,347,228**	**56,984,890**	**1,775,332,117**

	Share capital	Share premium	Accumulated losses	Effect of transfers with equity holders	Other reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
December 31, 2016	**5,840,857,335**	**295,572,643**	**(5,880,463,149)**	**(2,382,257,558)**	**3,977,720,747**	**1,851,430,018**	**58,998,725**	**1,910,428,742**
Net loss for 2017	-	-	(32,282,413)		-	**(32,282,413)**	4,221,626	**(28,060,787)**
Other comprehensive income	-	-	-	-	2,849,472	**2,849,472**	-	**2,849,472**
Total comprehensive income	**-**	**-**	**(32,282,413)**	**-**	**2,849,472**	**(29,432,941)**	**4,221,626**	**(25,211,315)**
June 30, 2017	**5,840,857,335**	**295,572,643**	**(5,912,745,562)**	**(2,382,257,558)**	**3,980,570,219**	**1,821,997,077**	**63,220,351**	**1,885,217,428**

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1. GENERAL

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

Rompetrol Rafinare S.A and its subsidiaries (hereinafter referred to as "the Group") are involved in refining, petrochemicals and downstream activities, and have all production facilities located in Romania (see Note 7.a). The number of employees of the Group at the end of June 2017 and December 2016 was 1,828 and 2,114 respectively.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective as of June 30, 2017, as endorsed by the European Union ("EU").

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments and available-for-sale (AFS) financial assets that have been measured at fair value.

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

b) Going concern

The financial statements of the Group are prepared on a going concern basis.

c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Standards issued but not yet effective

The Group has not adopted ahead of schedule 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 Group is in the process of assessing the impact of this amendment to the financial position or performance of the Group.

- **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. The Group has concluded on the preliminary assessment performed on this new standard, that no significant impact will have on the Group's financial position or performance.

- **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. These Clarifications have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this new standard on the Group's financial position or performance.

- **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 standard has not been yet endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

- **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. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

- **IFRIC INTERPRETATION 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. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

- 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 2017 for IFRS 12 Disclosure of Interests in Other Entities and 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. These annual improvements have not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the Group's financial position or performance.

e) Foreign currency translation

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

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

<u>Monetary assets and liabilities</u>

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

<u>Non-monetary assets and liabilities</u>

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated statement of income

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

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

Other matters

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

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

Romanian lei translation for information purposes basis

Amounts in Romanian lei are provided for information purpose basis only and are translated by multiplying the values in USD with the 30 June 2017 closing exchange rate of RON 3.9915= USD 1, for both 2017 and 2016 amounts.

f) Significant accounting judgments, estimates and assumptions

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Impairment of Goodwill on acquisitions

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

- Impairment of non- financial assets

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

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 4 and Note 5.

- Provision for environmental liability

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

Further details on provision for environmental liability are provided in Note 16.

- Provision for decommissioning

  The Group considers any provisions for decommissioning on acquisition of assets. In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected costs to dismantle and remove the depot from the site and the expected timing of those costs. Changes to these assumptions could have a significant impact on the amount of the provision.

Further details on the provision for decommissioning are provided in Note 16.

- Deferred tax assets

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

Further details on deferred tax assets are provided in Notes 13 and 22.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Carrying value of trade and other receivables

The Group assesses at each reporting date the requirement for an allowance 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 allowance. The allowance is recognized where there is objective evidence that a particular trade receivable or a group of trade receivables have impaired.

- Carrying value of inventories

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

- Provision for litigations

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

Further details on the provisions relating to litigations are provided in Notes 16, 20 and 27.

g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 30 June 2017.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

h) Business combinations and goodwill

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

i) Financial instruments

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

i. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as 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 Group 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 amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation 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)

Available for sale financial assets

Available for sale financial assets include equity investments. These are classified as available for sale assets are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available for sale assets reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale assets reserve to the statement of profit or loss in finance costs.

Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available for sale assets category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition

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

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

Or

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

Impairment of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Derecognition

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

iii. Offsetting of financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Property, plant and equipment

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

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

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

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

Buildings and other constructions	10 to 60 years
Storage tanks	20 to 30 years
Tank cars	25 years
Machinery and other equipment	3 to 20 years
Gas pumps	8 to12 years
Vehicles	5 years
Furniture and office equipment	3 to 10 years
Computers	3 years

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

k) Intangible assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Impairment of non-financial assets

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

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

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

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

Goodwill

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

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

m) Provisions

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

Provisions are not recognized for future operating losses.

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

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 expensed.

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

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

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

n) Leases

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Inventories

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

p) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 that the receivable should be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

q) Cash and cash equivalents

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

r) Revenue recognition

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 incentive discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized, that the Group:

- Has primary responsibility for providing the goods or service
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Interest bearing loans and borrowings

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

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

t) Borrowings costs

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

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

u) Retirement benefit costs

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

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

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

v) Taxes

- *Current income tax*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Deferred tax*

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

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

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

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

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

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

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

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

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

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

- *Sales tax*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

w) Dividends

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

x) Foreign Currency Transactions

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

y) Derivative Financial Instruments

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

For foreign exchange related derivatives, the Group treats the unrealized part as Derivative Financial Asset/Liability in the statement of financial position with corresponding impact on financial charges. The use of financial derivatives is governed by the Group’s policies approved by board of directors, which provide written principles on the use of financial derivatives. The Group determines gain/loss on a net basis based on the daily open positions.

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

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in period profit or loss. The Group’s policy with respect to hedging forecasted transactions is to designate it as a cash flow hedge. If the cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognized in profit or loss in the same period in which the hedged items affects period profit or loss.

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.

For the future contracts (purchase and sales contracts) that are entered into by the Group to hedge its commodity risk the realized and unrealized gains/losses are included in Cost of sales for the period (see Note 18).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Emission Rights

CO2 emission rights quota are allocated to the Group's refining and petrochemicals operations. For the period 2013-2020 the allowances have been validated by European Union and are posted on the Romanian Environmental Ministry website. Rompetrol Refinery received its quota allocation for 2016 and the one for 2017 was received on February 24, 2017. The Group accounts for the liability resulting from generating of these emissions using the net liability method. The actual emissions are not expected to exceed the certificates which the group has in its accounts in CO2 EU Register at the time of annual compliance (April 2017). The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective group companies. Income is recognised only when excess certificates are sold on the market.

aa) Contingencies

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

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

3. INTANGIBLE ASSETS

Amounts in USD

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2016	**33,528,262**	**38,536,728**	**2,357,408**	**74,422,398**
Additions	2,418	63,716	1,790,316	1,856,450
Transfers from CIP	(72,269)	170,836	(98,567)	-
Transfers and reclassifications*	-	-	(26,805)	(26,805)
Closing balance as of December 31, 2016	**33,458,411**	**38,771,280**	**4,022,352**	**76,252,043**
Additions	902	30,444	43,159	74,505
Transfers from CIP	37,861	96,565	(134,426)	-
Transfers and reclassifications*	638,453	275,306	16,364	930,123
Closing balance as of June 30, 2017	**34,135,627**	**39,173,595**	**3,947,449**	**77,256,671**
Accumulated amortization				
Opening balance as of January 1, 2016	**(32,515,882)**	**(34,703,944)**	**(523,380)**	**(67,743,206)**
Charge for the year	(552,315)	(690,760)	-	(1,243,075)
Accumulated amortization of disposals	158,713	(158,713)	-	-
Closing balance as of December 31, 2016	**(32,909,484)**	**(35,553,417)**	**(523,380)**	**(68,986,281)**
Charge for the year	(339,648)	(371,912)	-	(711,560)
Closing balance as of June 30, 2017	**(33,249,132)**	**(35,925,329)**	**(523,380)**	**(69,697,841)**
Net book value				
As of December 31, 2016	**548,927**	**3,217,863**	**3,498,972**	**7,265,762**
As of June 30, 2017	**886,495**	**3,248,266**	**3,424,069**	**7,558,830**

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

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

3. INTANGIBLE ASSETS (continued)

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

In 2016, out of the total additions of USD 1.85 million, USD 1.54 million (RON: 6.63 million) refers to licenses and software in relation to equipment for Rompetrol Rafinare.

Amounts in RON

	Software	Other	Intangibles in progress	Total
Cost				
Opening balance as of January 1, 2016	**133,828,058**	**153,819,350**	**9,409,594**	**297,057,002**
Additions	9,651	254,322	7,146,046	7,410,019
Transfers from CIP	(288,462)	681,892	(393,430)	-
Transfers and reclassifications*	-	-	(106,992)	(106,992)
Closing balance as of December 31, 2016	**133,549,247**	**154,755,564**	**16,055,218**	**304,360,029**
Additions	3,600	121,517	172,269	297,386
Transfers from CIP	151,122	385,439	(536,561)	-
Transfers and reclassifications*	2,548,385	1,098,884	65,317	3,712,586
Closing balance as of June 30, 2017	**136,252,354**	**156,361,404**	**15,756,243**	**308,370,001**
Accumulated amortization				
Opening balance as of January 1, 2016	**(129,787,143)**	**(138,520,792)**	**(2,089,071)**	**(270,397,006)**
Charge for the year	(2,204,565)	(2,757,169)	-	(4,961,734)
Accumulated amortization of disposals	633,503	(633,503)	-	-
Closing balance as of December 31, 2016	**(131,358,205)**	**(141,911,464)**	**(2,089,071)**	**(275,358,740)**
Charge for the year	(1,355,705)	(1,484,487)	-	(2,840,192)
Closing balance as of June 30, 2017	**(132,713,910)**	**(143,395,951)**	**(2,089,071)**	**(278,198,932)**
Net book value				
As of December 31, 2016	**2,191,042**	**12,844,100**	**13,966,147**	**29,001,289**
As of June 30, 2017	**3,538,444**	**12,965,453**	**13,667,172**	**30,171,069**

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

4. GOODWILL

The carrying value of goodwill as of 30 June 2017 and 31 December 2016 was USD 82,871,706 (RON: 330,782,416).

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

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

Impairment test

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2016 on the Downstream Romania cash generating units ("CGU"). Based on the impairment test no impairment has been identified. For further details see Note 6.

5. PROPERTY, PLANT AND EQUIPMENT

Amounts in USD

	Land and buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost					
As of January 1, 2016	**968,134,261**	**1,189,432,815**	**122,759,947**	**73,815,700**	**2,354,142,723**
Acquisitions	-	105,966	988,499	58,491,759	59,586,224
Transfers from CIP	11,851,455	12,568,200	4,443,607	(28,863,262)	-
Disposals	(1,532,984)	(9,996,145)	(3,086,799)	(19,962)	(14,635,890)
Transfers and reclassifications*	(8,347)	(26,084)	34,431	(118,839)	(118,839)
As of December 31, 2016	**978,444,385**	**1,192,084,752**	**125,139,685**	**103,305,396**	**2,398,974,218**
Additions	-	95,615	417,702	28,137,169	28,650,486
Transfers from CIP	7,238,399	6,553,233	2,203,840	(15,995,472)	-
Disposals	-	(842,670)	578,362	(836)	(265,144)
Transfers and reclassifications*	-	(943,072)	-	(40,056)	(983,128)
As of June 30, 2017	**985,682,784**	**1,196,947,858**	**128,339,589**	**115,406,201**	**2,426,376,432**
Accumulated depreciation & Impairment					
As of January 1, 2016	**(459,512,758)**	**(594,783,545)**	**(95,642,159)**	**(28,923,732)**	**(1,178,862,194)**
Charge for the year	(26,044,186)	(63,416,506)	(5,074,257)	-	(94,534,949)
Accumulated depreciation of disposals	576,718	9,953,103	2,392,487	-	12,922,308
Impairment	-	-	-	(351,877)	(351,877)
Transfers and reclassifications*	(141,778)	124,973	16,212	-	(593)
As of December 31, 2016	**(485,122,004)**	**(648,121,975)**	**(98,307,717)**	**(29,275,609)**	**(1,260,827,305)**
Charge for the year	(13,225,758)	(30,398,314)	(2,794,326)	-	(46,418,398)
Accumulated depreciation of disposals	-	216,561	20,759	-	237,320
As of June 30, 2017	**(498,347,762)**	**(678,303,728)**	**(101,081,284)**	**(29,275,609)**	**(1,307,008,383)**
Net book value as of December 31, 2016	**493,322,381**	**543,962,777**	**26,831,968**	**74,029,787**	**1,138,146,913**
Net book value as of June 30, 2017	**487,335,022**	**518,644,130**	**27,258,305**	**86,130,592**	**1,119,368,049**

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Amounts in RON

	Land and buildings	Plant and equipment	Vehicles and others	Construction in progress	Total
Cost					
As of January 1, 2016	**3,864,307,903**	**4,747,621,081**	**489,996,328**	**294,635,367**	**9,396,560,679**
Acquisitions	-	422,963	3,945,594	233,469,856	237,838,413
Transfers from CIP	47,305,083	50,165,970	17,736,657	(115,207,710)	-
Disposals	(6,118,906)	(39,899,613)	(12,320,958)	(79,678)	(58,419,155)
Transfers and reclassifications*	(33,317)	(104,114)	137,431	(474,346)	(474,346)
As of December 31, 2016	**3,905,460,763**	**4,758,206,287**	**499,495,052**	**412,343,489**	**9,575,505,591**
Additions	-	381,647	1,667,258	112,309,510	114,358,415
Transfers from CIP	28,892,070	26,157,230	8,796,627	(63,845,927)	-
Disposals	-	(3,363,517)	2,308,532	(3,337)	(1,058,322)
Transfers and reclassifications*	-	(3,764,272)	-	(159,884)	(3,924,156)
As of June 30, 2017	**3,934,352,833**	**4,777,617,375**	**512,267,469**	**460,643,851**	**9,684,881,528**
Accumulated depreciation & Impairment					
As of January 1, 2016	**(1,834,145,174)**	**(2,374,078,520)**	**(381,755,678)**	**(115,449,076)**	**(4,705,428,448)**
Charge for the year	(103,955,368)	(253,126,984)	(20,253,897)	-	(377,336,249)
Accumulated depreciation of disposals	2,301,970	39,727,811	9,549,612	-	51,579,393
Impairment	-	-	-	(1,404,517)	(1,404,517)
Transfers and reclassifications*	(565,907)	498,830	64,710	-	(2,367)
As of December 31, 2016	**(1,936,364,479)**	**(2,586,978,863)**	**(392,395,253)**	**(116,853,593)**	**(5,032,592,188)**
Charge for the year	(52,790,613)	(121,334,870)	(11,153,552)	-	(185,279,035)
Accumulated depreciation of disposals	-	864,403	82,860	-	947,263
As of June 30, 2017	**(1,989,155,092)**	**(2,707,449,330)**	**(403,465,945)**	**(116,853,593)**	**(5,216,923,960)**
Net book value as of December 31, 2016	**1,969,096,284**	**2,171,227,424**	**107,099,799**	**295,489,896**	**4,542,913,403**
Net book value as of June 30, 2017	**1,945,197,741**	**2,070,168,045**	**108,801,524**	**343,790,258**	**4,467,957,568**

In 2017, Transfers and Reclassifications of USD 0.983 million (RON 3.924 million) represent transfer to intangibles, reclassifications between categories and other adjustments.

- *Construction in progress*

During 2016, equipment and other assets in value of USD 6.1 million (2015: USD 6.2 million) were commissioned in relation to of Rebranding project for the modernization of retail stations of Downstream.

In 2016 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery specific optimisation programs amounting to USD 7.65 million, ISCIR authorisations amounting to USD 4.93 million, Tank rehabilitation amounting to USD 4.3 million and Refinery 2017 turnaround amounting to USD 3 million. Part of these projects have been transferred to the other property, plant and equipment categories.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2016 the main projects remaining in construction in progress refers to the following: Tank rehabilitation amounting to USD 7.9 million, ISCIR authorisations amounting to USD 5 million, Refinery specific optimisation programs amounting to USD 5.8 million and Refinery 2017 turnaround amounting to USD 2.8 million in respect of Rompetrol Rafinare SA.

In 2017 out of the total acquisitions for construction in progress the most significant refers to the following projects in respect of Rompetrol Rafinare SA: Refinery 2017 turnaround amounting to USD 11.04 million and petrochemicals in amount of USD 2 million, ISCIR authorisations amounting to USD 4.96 million, Tank rehabilitation amounting to USD 2.55 million. Part of these projects have been transferred to the other property, plant and equipment categories.

- *Disposals*

In 2016, out of the total USD 14.6 million disposed assets, USD 9.5 million refers to change of catalysts for Rompetrol Rafinare S.A. and USD 4.9 million refers to write-offs for Rompetrol Downstream.

- *Borrowing costs capitalized*

The Group is financing part of its operations from borrowings and hence the cost of these borrowings related to acquisition of qualifying assets is capitalized as part of the cost of those qualifying assets. For the years ended at 31 December 2016 and 31 December 2015 no loans were taken specifically for investments and - no borrowing costs were capitalized.

- *Disposals through sales of subsidiaries and liquidations*

During 2017 and 2016 there was no disposal of companies.

- *Impairment*

The Group completes an annual assessment for any indication of impairment for all entities based on specific asset considerations, as applicable, and taking into consideration expectations on future estimated cash flows. Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2016 on the cash generating units ("CGUs") listed below in Note 6.

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 407.44 million (2016: USD 420.29 million) net, for securing banking facilities granted to Group entities.

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

6. IMPAIRMENT TEST

Impairment tests have been performed by the Group for the carrying value of goodwill and property plant and equipment as of 31 December 2016 on the cash generating units ("CGUs") listed below. Based on the impairment tests performed, no impairment has been identified.

As of December 31, 2016 the net book value of property plant and equipment for the cash generating units is the following: Refining USD 815 million, Petrochemicals USD 110 million, Downstream USD 192 million.

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 9.6% (2015: 9.8%) 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 8.1% (2015: 8.3%).

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 9.6% (2015:9.8%) 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 8.1% (2015: 8.3%).

Downstream Romania

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

The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit. The discount rate applied to cash flow projections is 9.6% (2015 9.8%) 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 8.1 % (2015: 8.3%).

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:

	2017	**2018**	**2019**	**2020**	**2021**
Rompetrol Refinery	2.1%	2.6%	5.5%	4.9%	5.6%
Petrochemicals	-0.9%	-0.8%	2.7%	0.3%	3.4%
Downstream Romania	2.7%	2.6%	4.4%	4.0%	3.9%

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

6. IMPAIRMENT TEST (continued)

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

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

Sensitivity to changes in assumptions

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

Rompetrol Refinery

The break-even point for the current model is achieved under a decrease of 48.1% of Operating profit, reaching the following Operating profit margins:

	2017	2018	2019	2020	2021
Operating profit margin	1.1%	1.3%	2.8%	2.6%	2.9%

Petrochemicals

The break-even point for the current model is achieved under a decrease of 62.5% of Operating profit, reaching the following Operating profit margins:

	2017	2018	2019	2020	2021
Operating profit margin	-0.3%	-0.3%	1.0%	0.1%	1.3%

Downstream Romania

The break-even point for the current model is achieved under a decrease of Operating profit of 67.2% reaching the following Operating profit margins:

	2017	2018	2019	2020	2021
Operating profit margin	0.9%	0.8%	1.5%	1.3%	1.3%

*Operating profit margins were computed based on net revenue.

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

7. INVESTMENTS

a) Investments in Consolidated Subsidiaries

Details of the Group consolidated subsidiaries at December 31, 2016 and 2015 are as follows:

Company name	Range of activity	Effective ownership June 30, 2017	Control June 30, 2017	Effective ownership December 31, 2016	Control December 31, 2016
Rompetrol Downstream S.R.L.	Retail Trade of Fuels and Lubricants	100.00%	100.00%	100.00%	100.00%
Rom Oil S.A.	Wholesale of Fuels; fuel storage	100.00%	100.00%	100.00%	100.00%
Rompetrol Logistics S.R.L.	Logistics operations	66.19%	100.00%	66.19%	100.00%
Rompetrol Petrochemicals S.R.L.	Petrochemicals	100.00%	100.00%	100.00%	100.00%
Rompetrol Quality Control S.R.L.	Quality Control Services	100.00%	100.00%	100.00%	100.00%
Rompetrol Gas S.R.L.	LPG Sales	66.19%	100.00%	66.19%	100.00%

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

b) Available for sale Investments

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Other	18,583	18,583	79,968	79,968
Total	**18,583**	**18,583**	**79,968**	**79,968**

Other investments are investments in companies in Romania, which are held primarily for long-term growth potential.

8. INVENTORIES, NET

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Crude oil and other feedstock materials	89,502,937	110,510,568	357,250,973	441,102,932
Petroleum and petrochemical products	89,774,904	69,858,959	358,336,529	278,842,035
Work in progress	27,980,381	28,704,734	111,683,691	114,574,946
Spare parts	16,443,226	16,612,033	65,633,137	66,306,930
Consumables and other raw materials	5,122,396	5,583,758	20,446,044	22,287,570
Merchandises	8,219,330	6,787,215	32,807,456	27,091,169
Other inventories	8,720,686	8,725,268	34,808,618	34,826,907
Inventories provision	(19,606,816)	(16,690,970)	(78,260,606)	(66,622,007)
	226,157,044	**230,091,565**	**902,705,842**	**918,410,482**

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

8. INVENTORIES, NET (continued)

The inventories provision movement in 2017 and 2016 is provided below:

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Reserve as of January 1	**(16,690,970)**	**(19,479,973)**	**(66,622,007)**	**(77,754,312)**
Accrued provision	(2,737,931)	(6,103,255)	(10,928,452)	(24,361,142)
Write off	-	111,172	-	443,743
Reversal of provision	(177,915)	8,781,086	(710,147)	35,049,704
Reserve as of June 30 / December 31	**(19,606,816)**	**(16,690,970)**	**(78,260,606)**	**(66,622,007)**

The inventories provisions mainly represent the provision for net realizable value in relation to refineries and petrochemical plant.

The Group has pledged inventories in gross amount of USD 109.45 million (2016: USD 170.16 million) to secure banking facilities.

9. TRADE AND OTHER RECEIVABLES

As mentioned in Note 1 the Parent company and its subsidiaries are part of KMG International Group. The balances with related parties are disclosed in Note 24.

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Trade receivables	284,149,351	252,476,726	1,134,182,135	1,007,760,852
Advances to suppliers	5,846,104	9,141,906	23,334,724	36,489,918
Sundry debtors	34,048,047	31,018,813	135,902,780	123,811,592
VAT to be recovered	16,588	71,450	66,211	285,193
Other receivables	167,496,441	87,603,703	668,562,044	349,670,181
Provision for bad and doubtful debts	(101,520,661)	(92,735,110)	(405,219,718)	(370,152,192)
	390,035,870	**287,577,488**	**1,556,828,176**	**1,147,865,544**

Movement in the above provision is disclosed below and in Note 20.

Included in Sundry debtors in 2017 is an amount of USD 23.88 million (2016: USD 20.99 million) for payment made by Rompetrol Rafinare for antidumping and countervailing taxes for Biodiesel import (in respect with KMGI); and USD 2.97 million (2016: USD 2.75 million) for principal liabilities and related penalties paid to ANAF following General Tax Inspection Report covering 2007-2010 period, and an additional USD 3.4 million (2016: USD 3.2 million) for payment made by Rompetrol Rafinare SA to Navodari City Hall following the fiscal audit on local taxes (in respect of revaluation of buildings) (see Note 27).

Out of the total balance for other receivables of USD 167.85 million, an amount of USD 28.2 million (2016: USD 24.74 million) relates to Competition Council fine from Downstream and USD 101.66 million relates to cash pooling receivables for: Rompetrol Downstream (USD 86.9 million) and Rompetrol Gas (USD 14.67 million). Also, in other receivables an amount of USD 11.36 million (2016: USD 13.8 million) refers to excise receivables in Rompetrol Rafinare.

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

9. TRADE AND OTHER RECEIVABLES (continued)

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Sundry debtors	34,048,047	31,018,813	135,902,780	123,811,592
Other receivables	167,496,441	87,603,703	668,562,044	349,670,181
Provision for sundry debtors and other receivables	(30,118,549)	(26,520,402)	(120,218,188)	(105,856,183)

Out of the total amount of other receivables and sundry debtors of USD 201.5 million (2016: USD 118.6 million) an amount of USD 30.11 million (2016: USD 26.52 million) is provisioned.

The movement in provision for doubtful debts for trade and other receivables is as follows:

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Balance at the beginning of the year	**(92,735,110)**	**(93,925,432)**	**(370,152,192)**	**(374,903,362)**
Impairment losses recognized on receivables	(676,957)	(1,347,495)	(2,702,074)	(5,378,526)
Impairment losses reversed	399,450	2,049,147	1,594,405	8,179,170
Translation differences	(8,508,044)	488,670	(33,959,857)	1,950,526
Balance at the end of the year	**(101,520,661)**	**(92,735,110)**	**(405,219,718)**	**(370,152,192)**

Trade receivables totaling USD 104.77 million (RON 418.22 million) as at June 30, 2017 and USD 132.18 million (RON 527.6 million) as at December 31, 2016 are pledged to obtain credit facilities (see Notes 12 and 15).

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

10.CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Cash at bank	5,254,980	14,472,800	20,975,253	57,768,181
Cash on hand	1,212,314	1,196,646	4,838,951	4,776,413
Cash equivalents	340,051	140,852	1,357,314	562,211
	6,807,345	**15,810,298**	**27,171,518**	**63,106,805**

Included in cash at bank is USD 1.75 million (RON 6.99 million) as at June 30, 2017 and USD 1.54 million (RON 6.14 million) as at December 31, 2016 representing cash collateral for certain bank facilities (see Note 12 and 15). Cash equivalents represent mainly cheques in the course of being cashed.

11.SHARE CAPITAL

As of June 30, 2017 and December 31, 2016 the share capital consisted of 44,109,205,726, authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at June 30, 2017 and December 31, 2016 is as follows:

December 31, 2016

Shareholders	Ownership	Amount per statutory documents [RON]	Amount under IFRS [USD]	Amount under IFRS [RON]
KMG International NV	48.11%	2,122,250,642	704,057,130	3,029,769,048
Romanian State represented by Ministry of Energy	44.70%	1,971,500,905	654,045,871	2,814,555,597
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	407,454,823
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	3,137,953
Others (not State or KMGI Group)	0.67%	29,562,686	9,807,428	42,204,305
Total	**100%**	**4,410,920,571**	**1,463,323,897**	**6,297,121,726**

There were no changes in the statutory value of Rompetrol Rafinare SA issued share capital in 2017 and 2016.

Share premium and effect of transfers with equity holders

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

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

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

11. SHARE CAPITAL (continued)

Hybrid Loan

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

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

12. LONG-TERM BORROWINGS FROM BANKS

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank	-	127,850,463	-	510,315,123
Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.				
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank	-	65,556,435	-	261,668,510
Rompetrol Rafinare: The exposure is composed by 4 loans in USD. The loans are payable by April 23, 2018. The loans were transferred to short term debt.				
Amount payable within one year principal	**-**	**(244,093)**	**-**	**(974,297)**
Total	**-**	**193,162,805**	**-**	**771,009,336**

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
One year or less - principal	-	244,093	-	974,297
One year or less - accrued interest long-term loans	-	-	-	-
Between two and five years	-	193,162,805	-	771,009,336
Total	**-**	**193,406,898**	**-**	**771,983,633**

The loans are secured with pledges on property plant and equipment of USD 407.44 million (2016: USD 420.29), inventories of USD 109.45 million (2016: USD 170.16) and trade receivables of USD: 104.77 million (2016: USD 132.18million).

The club loan with Raiffeisen/BCR/ING/Unicredit is secured with a USD 200 million Corporate Guarantee by NC KazMunayGas JSC with a maturity of 5 years.

All the financial covenants applicable were complied with as of June 30, 2017.

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

13. DEFERRED TAX ASSETS AND LIABILITIES

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

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	USD	RON	RON
Deferred tax assets	(63,468,579)	(63,468,579)	(253,334,834)	(253,334,834)
Deferred tax liabilities	306,570	306,570	1,223,674	1,223,674
Deferred tax (asset) / liability, net	**(63,162,009)**	**(63,162,009)**	**(252,111,160)**	**(252,111,160)**

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

USD

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	125,006,263	-	-	125,006,263
Inventories	82,619	-	-	82,619
Provisions	(65,525,531)	-	-	(65,525,531)
Tax losses	(454,374,481)	-	-	(454,374,481)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	**(394,762,555)**	**-**	**-**	**(394,762,555)**
Deffered tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	20,001,002	-	-	20,001,002
Inventories	13,219	-	-	13,219
Provisions	(10,484,085)	-		(10,484,085)
Tax losses	(72,699,917)	-		(72,699,917)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	**(63,162,009)**	**-**	**-**	**(63,162,009)**

RON

2017	Opening balance	Charged/(Credited) to income	Charged/(Credited) to equity	Closing balance
Temporary differences				
Intangible assets	196,533	-	-	196,533
Property, plant and equipment	498,962,499	-	-	498,962,499
Inventories	329,774	-	-	329,774
Provisions	(261,545,157)	-	-	(261,545,157)
Tax losses	(1,813,635,741)	-	-	(1,813,635,741)
Other	(2,646)	-	-	(2,646)
Total temporary differences (asset)/liability	**(1,575,694,738)**	**-**	**-**	**(1,575,694,738)**
Deffered tax effect				
Intangible assets	31,445	-	-	31,445
Property, plant and equipment	79,834,000	-	-	79,834,000
Inventories	52,764	-	-	52,764
Provisions	(41,847,225)	-	-	(41,847,225)
Tax losses	(290,181,721)	-	-	(290,181,721)
Other	(423)	-	-	(423)
Deferred tax (asset)/liability recognized	**(252,111,160)**	**-**	**-**	**(252,111,160)**

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

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

USD

2016	**Opening balance**	**Charged/(Credited) to income**	**Charged/(Credited) to equity**	**Closing balance**
Temporary differences				
Intangible assets	49,238	-	-	49,238
Property, plant and equipment	102,946,669	22,059,594	-	125,006,263
Inventories	82,619	-	-	82,619
Provizions	(65,525,531)	-	-	(65,525,531)
Tax losses	(410,561,444)	(43,813,038)	-	(454,374,482)
Other	(663)	-	-	(663)
Total temporary differences (asset)/liability	**(373,009,112)**	**(21,753,444)**	**-**	**(394,762,556)**
Deffered tax effect				
Intangible assets	7,878	-	-	7,878
Property, plant and equipment	16,471,467	3,529,535	-	20,001,002
Investments	-	-	-	-
Inventories	13,219	-	-	13,219
Provizions	(10,484,085)	-	-	(10,484,085)
Tax losses	(65,689,831)	(7,010,086)		(72,699,917)
Other	(106)	-	-	(106)
Deferred tax (asset)/liability recognized	**(59,681,458)**	**(3,480,551)**	**-**	**(63,162,009)**

RON

2016	**Opening balance**	**Charged/(Credited) to income**	**Charged/(Credited) to equity**	**Closing balance**
Temporary differences				
Intangible assets	196,533	-	-	196,533
Property, plant and equipment	410,911,629	88,050,869	-	498,962,498
Inventories	329,774	-	-	329,774
Provizions	(261,545,157)	-	-	(261,545,157)
Tax losses	(1,638,756,004)	(174,879,741)	-	(1,813,635,745)
Other	(2,646)	-	-	(2,646)
Total temporary differences (asset)/liability	**(1,488,865,871)**	**(86,828,872)**	**-**	**(1,575,694,743)**
Deffered tax effect				
Intangible assets	31,445	-	-	31,445
Property, plant and equipment	65,745,861	14,088,139	-	79,834,000
Inventories	52,764	-	-	52,764
Provizions	(41,847,225)	-	-	(41,847,225)
Tax losses	(262,200,960)	(27,980,761)	-	(290,181,721)
Other	(423)	-	-	(423)
Deferred tax (asset)/liability recognized	**(238,218,538)**	**(13,892,622)**	**-**	**(252,111,160)**

The ability of the Group to obtain recovery of its deferred tax asset depends on the entities ability, where tax losses have arisen to generate taxable income sufficient to cover the applicable tax losses available. The Group did not recognize deferred tax income for all available tax losses (see note 22). Management considers that future taxable income will be generated for recovery of the available tax losses where it has recognized a corresponding deferred tax asset.

See also note 22 for details for the income tax rate and other related matters.

Deferred tax assets and liabilities cannot be offset between the companies from Romania. The local fiscal law does not define the concept of “Fiscal Group”.

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

14.TRADE AND OTHER PAYABLES

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	**USD**	**RON**	**RON**
Trade payables	654,717,772	628,497,691	2,613,305,992	2,508,648,539
Advances from customers	27,474,658	21,064,941	109,665,095	84,080,712
Special found tax for oil products	6,904,954	6,404,729	27,561,124	25,564,476
VAT payable	30,698,848	27,329,857	122,534,452	109,087,124
Profit tax payable	674,035	185,336	2,690,411	739,769
Other taxes payable	436,218	(620,103)	1,741,164	(2,475,141)
Employees and social obligations	2,973,047	2,891,425	11,866,917	11,541,123
Deferred revenues	4,867,306	5,801,965	19,427,852	23,158,543
Other liabilities	151,026,161	97,015,834	602,820,922	387,238,701
Total	**879,855,508**	**788,571,675**	**3,511,943,264**	**3,147,583,846**

The Group entered into a cash pooling contract for optimizing cash, with KMG Rompetrol S.R.L. ("Master Company"). The amounts in balance as of June 30, 2017 are included in other liabilities, for the following companies: Rompetrol Rafinare S.A. USD 137 million and Romoil USD 1.3 million and Rompetrol Quality Control S.R.L USD 0.8 million, Rompetrol Downstream S.R.L. and Rompetrol Gas have a positive balance included in other receivables (see note 9) amounting to USD 86.99 million and USD 14.67 million respectively.

Also in other liabilities are included short term guarantees in Rompetrol Downstream S.R.L., in amount of USD 3.66 million (2016: USD 3.45 million).

15. SHORT-TERM DEBT

	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
	USD	**USD**	**RON**	**RON**
Bancpost Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2018. Drawings in USD/EUR/RON.	51,532,114	20,644,165	205,690,434	82,401,184
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Downstream: The entire exposure is composed by 2 different loans in USD. The loans are payable by April 23, 2018.	103,962,315	-	414,965,580	-
Unicredit Bank, ING Bank, BCR, Raiffeisen Bank Rompetrol Rafinare: The exposure is composed by 4 loans in USD. The loans are payable by April 23, 2018.	81,229,100	-	324,225,953	-
Accrued interest	193,894	-	773,928	-
Current portion of long-term debt	-	244,093	-	974,297
	236,917,423	**20,888,258**	**945,655,895**	**83,375,481**

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

15. SHORT-TERM DEBT (continued)

	June 30, 2017 USD	December 31, 2016 USD	June 30, 2017 RON	December 31, 2016 RON
Borrowings from shareholders and related parties				
KMG International N.V.	166,837,516	196,066,903	665,931,945	782,601,043
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 250 million, maturity date - December 31, 2017, assignment of receivables, real movable security interest over movable asstes, real movable security interest over the participations over Rompetrol Logistics SRL, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil SA; real movable security interest over the bank accounts.				
Rompetrol Financial Group	28,811,224	26,723,677	115,000,001	106,667,557
Rompetrol Rafinare SA:Short-term facility for working capital needs in amount of up to USD 28.81 million, maturity date - December 31, 2017. The facility has been fully used.				
KMG International N.V.	17,261,257	17,261,257	68,898,307	68,898,307
Rompetrol Downstream SRL: Working capital facility for USD 39.2 million. Maturity date is December 31, 2017 with the possibility to be extended automatically with the agreement of both parties.				
Midia Marine Terminal	7,000,000	7,000,000	27,940,500	27,940,500
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of USD 7 million, maturity date December 31, 2017. The facility has been fully used.				
Rompetrol Well Services S.A	3,256,921	3,020,937	13,000,000	12,058,070
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - July 10, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Rompetrol Well Services S.A	2,805,963	2,602,654	11,200,001	10,388,493
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - August 28, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.				
Rompetrol Well Services S.A				
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - July 14, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	1,753,727	1,626,659	7,000,001	6,492,809
Rompetrol Well Services S.A				
Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date -July 3, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	776,650	720,377	3,099,998	2,875,385
Accrued interest	5,229,851	13,231,505	20,874,949	52,813,552
	233,733,109	**268,253,969**	**932,945,702**	**1,070,735,716**

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

15.SHORT-TERM DEBT (continued)

All the financial covenants applicable were complied with as of June 30, 2017.

All loans are interest bearing and the effective weighted average interest rates per currency are the following: EUR 3.3% (2016: 2.98%), RON 4.32% (2016: 4.20%) and USD 2.14% (2016: 3.17%).

The loans bearing guarantees are secured with pledges on property plant and equipment of USD 407.44 million (2016: USD 420.29), inventories of USD 109.45 million (2016: USD 170.16) and trade receivables of USD: 104.77 million (2016: USD 132.18 million).

16. PROVISIONS

Provisions comprise the following:

	30 June 2017 USD	31 December 2016 USD	30 June 2017 RON	31 December 2016 RON
Non-current provisions	74,981,195	76,429,343	299,287,439	305,067,723
Total Provisions	**74,981,195**	**76,429,343**	**299,287,439**	**305,067,723**

The movement in provisions is presented below:

USD	**At 1 January 2017**	**Reclassification between balance sheet items**	**At 30 June 2017**
Provision for retirement benefit	6,958,404	-	6,958,404
Provision for restructuring	13,486	-	13,486
Environmental provisions	65,595,731	-	65,595,731
Other provisions	3,861,722	(1,448,148)	2,413,574
Total	**76,429,343**	**(1,448,148)**	**74,981,195**

RON	**At 1 January 2017**	**Reclassification between balance sheet items**	**At 30 June 2017**
Provision for retirement benefit	27,774,470	-	27,774,470
Provision for restructuring	53,829	-	53,829
Environmental provisions	261,825,361	-	261,825,361
Other provisions	15,414,063	(5,780,284)	9,633,779
Total	**305,067,723**	**(5,780,284)**	**299,287,439**

The movement in other provisions from 2017 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 1.45 million).

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

16.PROVISIONS (continued)

USD	At 1 January 2016	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2016
Provision for retirement benefit	6,550,536	1,029,432	(621,564)	-	6,958,404
Provision for restructuring	13,486	-	-	-	13,486
Environmental provisions	65,595,731	-	-	-	65,595,731
Other provisions	6,876,964	-	-	(3,015,242)	3,861,722
Total	**79,036,717**	**1,029,432**	**(621,564)**	**(3,015,242)**	**76,429,343**

RON	At 1 January 2016	Charged to equity	Arising during the year	Reclassification between balance sheet items	At 31 December 2016
Provision for retirement benefit	26,146,464	4,108,978	(2,480,972)	-	27,774,470
Provision for restructuring	53,829	-	-	-	53,829
Environmental provisions	261,825,361	-	-	-	261,825,361
Other provisions	27,449,402	-	-	(12,035,339)	15,414,063
Total	**315,475,056**	**4,108,978**	**(2,480,972)**	**(12,035,339)**	**305,067,723**

The movement in other provisions from 2016 is related mainly to the provision booked in relation to Competition Council case in Rompetrol Downstream (USD 3 million), for mote details, see note 20.

An environmental provision has been recognized in prior periods for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. During 2012 an evaluation report was issued by the third party expert 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 USD 67.35 million has been provided by the Group. The Company has re-assessed the provision as of 31 December 2016 and the resulting difference was immaterial. Currently, the suppliers prequalification stage is in progress and considering the further bidding process and final contract negotiation, the expected start of the works on the field will be in the last quarter of 2017 / latest first quarter 2018. After the remediation works will be contracted, a better estimation of the costs will be available and this will be reflected in 2017 financial statements.

Under the collective labor agreements that certain Group's entities have in force it is provided that, employees are entitled to specific retirement benefits that are payable on retirement, if the employees are employed with Group entities at the date of their retirement. A corresponding provision has been recognized based on: the specific benefits provided in the agreement; the number of employees working within the relevant Group entities; and actuarial assumptions regarding mortality, staff turnover etc. These liabilities are recorded at their fair values as of the balance sheet 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.

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

17.REVENUES

	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	USD	USD	RON	RON
Gross revenues from petroleum products production	1,451,182,561	1,542,073,977	5,792,395,192	6,155,188,279
Gross revenues from petroleum products trading	150,062,701	36,622,179	598,975,271	146,177,427
Revenues from petrochemicals production	79,882,304	90,459,745	318,850,216	361,070,072
Revenues from petrochemicals trading	101,890	609,666	406,694	2,433,482
Revenues from other merchandise sales	30,699,891	26,296,512	122,538,615	104,962,528
Revenues from utilities sold	940,839	960,675	3,755,359	3,834,534
Revenues from transportation fees	696,940	634,809	2,781,836	2,533,840
Revenues from rents and other services	4,847,449	4,967,431	19,348,593	19,827,501
Gross Revenues	**1,718,414,575**	**1,702,624,994**	**6,859,051,776**	**6,796,027,663**
Less sales taxes	(395,389,419)	(500,457,416)	(1,578,196,866)	(1,997,575,776)
Less commercial discounts	(48,601,712)	(49,023,460)	(193,993,733)	(195,677,141)
Total	**1,274,423,444**	**1,153,144,118**	**5,086,861,177**	**4,602,774,746**

Total Revenues decreased mainly due to the decrease of prices for crude oil and petroleum products.

18.COST OF SALES

	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	USD	USD	RON	RON
Crude oil and other raw materials	999,264,293	875,725,338	3,988,563,427	3,495,457,686
Consumables and other materials	6,061,473	6,440,274	24,194,369	25,706,354
Utilities	31,243,276	35,062,924	124,707,536	139,953,661
Staff costs	11,162,440	12,059,859	44,554,879	48,136,927
Transportation	76,438	69,580	305,102	277,729
Maintenance	10,012,991	11,714,482	39,966,854	46,758,355
Insurance	662,192	852,757	2,643,139	3,403,780
Environmental expenses	84,091	126,076	335,649	503,232
Other	4,356,209	6,099,674	17,387,808	24,346,849
Cash production cost	**1,062,923,403**	**948,150,964**	**4,242,658,763**	**3,784,544,573**
Depreciation and amortization	28,709,150	35,332,145	114,592,572	141,028,257
Production costs	**1,091,632,553**	**983,483,109**	**4,357,251,335**	**3,925,572,830**
Plus: Change in inventories	(69,552,907)	894,120	(277,620,428)	3,568,880
Less: Own production of property, plant & equipment	(1,763,067)	(150,473)	(7,037,282)	(600,613)
Cost of petroleum products trading	129,328,167	26,445,128	516,213,379	105,555,728
Cost of petrochemicals trading	120,916	640,094	482,636	2,554,935
Cost of merchandise sold	24,600,415	22,879,220	98,192,556	91,322,407
Cost of utilities resold	536,356	509,429	2,140,865	2,033,386
Realised (gains)/losses on derivatives	1,020,476	(1,494,534)	4,073,230	(5,965,432)
Unrealised losses on derivatives	-	201,000	-	802,292
Total	**1,175,922,909**	**1,033,407,093**	**4,693,696,291**	**4,124,844,413**

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

19.SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING LOGISTIC COSTS

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Staff costs	9,759,429	10,222,512	38,954,761	40,803,157
Utilities	2,186,155	1,961,016	8,726,038	7,827,395
Transportation	21,598,831	20,417,545	86,211,734	81,496,631
Professional and consulting fees	12,881,395	12,504,061	51,416,088	49,909,959
Royalties and rents	2,780,589	2,877,749	11,098,721	11,486,535
Consumables	108,807	253,425	434,303	1,011,546
Marketing	1,668,302	1,536,703	6,659,027	6,133,750
Taxes	1,142,496	1,982,223	4,560,273	7,912,043
Communications	380,460	416,496	1,518,606	1,662,444
Insurance	513,662	478,357	2,050,282	1,909,362
IT related expenditures	4,053,641	3,904,707	16,180,108	15,585,638
Environmental expenses	1,183,661	985,876	4,724,583	3,935,124
Maintenance	4,715,451	4,263,845	18,821,723	17,019,137
Other expenses	6,771,760	3,799,270	27,029,480	15,164,786
Costs before depreciation	**69,744,639**	**65,603,785**	**278,385,727**	**261,857,507**
Depreciation and amortisation	18,420,807	12,998,514	73,526,651	51,883,569
Total	**88,165,446**	**78,602,299**	**351,912,378**	**313,741,076**

20.OTHER OPERATING INCOME/ (EXPENSES), NET

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Net book value of non-current assets disposals	(27,824)	1,017	(111,059)	4,059
Proceeds on disposals of non-current assets	246,958	121,995	985,733	486,943
Provision for receivables, net	(277,507)	(84,284)	(1,107,669)	(336,420)
Provision for inventories, net	(2,915,846)	572,448	(11,638,599)	2,284,926
Tangible and intangible assets write-off	-	(26,581)	-	(106,098)
Inventories write-off	(1,700)	(4,392)	(6,786)	(17,531)
Other, net	75,517	737,132	301,426	2,942,263
Total	**(2,900,402)**	**1,317,335**	**(11,576,954)**	**5,258,142**

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

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

21.FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Finance cost				
Late payment interest	(64,289)	(8,956)	(256,610)	(35,748)
Interest expense	(14,888,774)	(8,752,744)	(59,428,541)	(34,936,578)
Interest expense shareholders	(4,806,537)	(4,562,794)	(19,185,292)	(18,212,392)
Commission and other bank charges	(9,047,243)	(7,448,613)	(36,112,070)	(29,731,139)
Collection discounts expenses	1,034	(1,154)	4,127	(4,607)
	(28,805,809)	**(20,774,261)**	**(114,978,386)**	**(82,920,464)**
Finance income				
Interest income	14,977,019	4,462,663	59,780,771	17,812,720
Other financial income	159,562	171,601	636,892	684,945
	15,136,581	**4,634,264**	**60,417,663**	**18,497,665**
Finance income/(cost) net	**(13,669,228)**	**(16,139,997)**	**(54,560,723)**	**(64,422,799)**
Unrealized net foreign exchange (losses)/gains	(3,414,272)	860,659	(13,628,067)	3,435,320
Realized net foreign exchange (losses)/gains	3,033,747	(4,669,428)	12,109,201	(18,638,022)
Foreign exchange gain/(loss), net	**(380,525)**	**(3,808,769)**	**(1,518,866)**	**(15,202,702)**
Total	**(14,049,753)**	**(19,948,766)**	**(56,079,589)**	**(79,625,501)**

Collection discounts expenses represent financial discounts granted by Rompetrol Downstream S.R.L to its customers for the early payment of receivables. From 2017, the amounts were deducted from net revenues.

22.INCOME TAX

a) The current income tax rate in 2017 was 16%, the same as in 2016.

	June 30, 2017 USD	June 30, 2016 USD	June 30, 2017 RON	June 30, 2016 RON
Tax expense comprises:				
Current tax expense	415,070	471,982	1,656,752	1,883,916
Deferred tax credit relating to the origination and reversal of temporary differences	-	-	-	-
Total tax expense/(income)	**415,070**	**471,982**	**1,656,752**	**1,883,916**

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

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

23.OPERATING SEGMENT INFORMATION

a) Business Segments

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

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

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

23. OPERATING SEGMENT INFORMATION (continued)

2017 Income Statement information

USD	Refining	Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Net revenues	1,046,925,644	79,984,194	609,945,904	(462,432,298)	1,274,423,444
Cost of sales	(1,008,539,465)	(86,370,140)	(552,766,422)	471,753,118	(1,175,922,909)
Gross margin	**38,386,179**	**(6,385,946)**	**57,179,482**	**9,320,820**	**98,500,535**
Selling, general and administrative expenses	(27,648,066)	(4,445,546)	(47,094,495)	(8,977,339)	(88,165,446)
Other operating expenses, net	(2,344,504)	(2,032)	(246,050)	(307,816)	(2,900,402)
Operating margin	**8,393,609**	**(10,833,524)**	**9,838,937**	**35,665**	**7,434,687**
Financial expenses, net	(11,323,511)	(437)	(2,344,310)	(970)	(13,669,228)
Net foreign exchange result	(14,280,344)	5,331,125	8,568,694	-	(380,525)
Profit before income tax	**(17,210,246)**	**(5,502,836)**	**16,063,321**	**34,695**	**(6,615,066)**
Income tax	-	-	(415,070)	-	(415,070)
Net Profit	**(17,210,246)**	**(5,502,836)**	**15,648,251**	**34,695**	**(7,030,136)**
Depreciation and amortisation	23,566,777	15,197,551	9,098,814	(733,184)	**47,129,958**

RON	Refining	Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Net revenues	4,178,803,708	319,256,910	2,434,599,076	(1,845,798,517)	**5,086,861,177**
Cost of sales	(4,025,585,275)	(344,746,414)	(2,206,367,173)	1,883,002,571	**(4,693,696,291)**
Gross margin	**153,218,433**	**(25,489,504)**	**228,231,903**	**37,204,054**	**393,164,886**
Selling, general and administrative expenses	(110,357,255)	(17,744,397)	(187,977,677)	(35,833,049)	**(351,912,378)**
Other operating expenses, net	(9,358,088)	(8,111)	(982,109)	(1,228,646)	**(11,576,954)**
Operating margin	**33,503,090**	**(43,242,012)**	**39,272,117**	**142,359**	**29,675,554**
Financial expenses, net	(45,197,794)	(1,744)	(9,357,313)	(3,872)	**(54,560,723)**
Net foreign exchange result	(56,999,993)	21,279,185	34,201,942	-	**(1,518,866)**
Profit before income tax	**(68,694,697)**	**(21,964,571)**	**64,116,746**	**138,487**	**(26,404,035)**
Income tax	-	-	(1,656,752)	-	**(1,656,752)**
Net Profit	**(68,694,697)**	**(21,964,571)**	**62,459,994**	**138,487**	**(28,060,787)**
Depreciation and amortisation	94,066,790	60,661,025	36,317,915	(2,926,503)	**188,119,227**

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

23. OPERATING SEGMENT INFORMATION (continued)

2017 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non-current assets	1,646,631,622	224,537,913	(596,279,476)	1,274,890,059
Total current assets	385,367,417	355,741,128	(117,706,615)	623,401,930
TOTAL ASSETS	**2,031,999,039**	**580,279,041**	**(713,986,091)**	**1,898,291,989**
Total equity	869,734,637	202,908,106	(600,334,732)	472,308,011
Total non-current liabilities	67,470,228	2,994,010	5,013,700	75,477,938
Total current liabilities	1,094,794,174	374,376,925	(118,665,059)	1,350,506,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,031,999,039**	**580,279,041**	**(713,986,091)**	**1,898,291,989**
Capital expenditure	27,488,741	1,306,899	(70,649)	**28,724,991**

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non-current assets	6,572,530,121	896,243,079	(2,380,049,528)	5,088,723,672
Total current assets	1,538,194,045	1,419,940,712	(469,825,951)	2,488,308,806
TOTAL ASSETS	**8,110,724,166**	**2,316,183,791**	**(2,849,875,479)**	**7,577,032,478**
Total equity	3,471,545,805	809,907,705	(2,396,236,082)	1,885,217,428
Total non-current liabilities	269,307,416	11,950,590	20,012,183	301,270,189
Total current liabilities	4,369,870,945	1,494,325,496	(473,651,580)	5,390,544,861
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,110,724,166**	**2,316,183,791**	**(2,849,875,479)**	**7,577,032,478**
Capital expenditure	109,721,310	5,216,487	(281,996)	**114,655,801**

2016 Income Statement information

USD	Refining	Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Net revenues	937,138,992	91,069,411	484,593,160	(359,657,445)	1,153,144,118
Cost of sales	(891,452,697)	(87,882,306)	(421,922,303)	367,850,213	(1,033,407,093)
Gross margin	**45,686,295**	**3,187,105**	**62,670,857**	**8,192,768**	**119,737,025**
Selling, general and administrative expenses	(21,262,051)	(3,943,957)	(44,832,487)	(8,563,804)	(78,602,299)
Other operating expenses, net	4,293,934	6,097	(109,145)	(2,873,551)	1,317,335
Operating margin	**28,718,178**	**(750,755)**	**17,729,225**	**(3,244,587)**	**42,452,061**
Financial expenses, net	(13,072,424)	215,275	(2,540,766)	(742,082)	(16,139,997)
Net foreign exchange result	(6,153,252)	1,527,968	816,515	-	(3,808,769)
Profit before income tax	**9,492,502**	**992,488**	**16,004,974**	**(3,986,669)**	**22,503,295**
Income tax	-	-	(471,982)	-	(471,982)
Net Profit	**9,492,502**	**992,488**	**15,532,992**	**(3,986,669)**	**22,031,313**
Depreciation and amortisation	32,849,863	7,804,043	8,714,574	(1,037,821)	48,330,659

In total net revenues are included customers that own more than 10% of total sales, their value amounting USD 327.6 million in 2017 and USD 388.8 million in 2016.

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

23.OPERATING SEGMENT INFORMATION (continued)

RON	Refining	Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Net revenues	3,740,590,287	363,503,554	1,934,253,598	(1,435,572,693)	**4,602,774,746**
Cost of sales	(3,558,233,440)	(350,782,224)	(1,684,102,872)	1,468,274,123	**(4,124,844,413)**
Gross margin	**182,356,847**	**12,721,330**	**250,150,726**	**32,701,430**	**477,930,333**
Selling, general and administrative expenses	(84,867,477)	(15,742,304)	(178,948,872)	(34,182,423)	**(313,741,076)**
Other operating expenses, net	17,139,238	24,336	(435,652)	(11,469,780)	**5,258,142**
Operating margin	**114,628,608**	**(2,996,638)**	**70,766,202**	**(12,950,773)**	**169,447,399**
Financial expenses, net	(52,178,580)	859,270	(10,141,467)	(2,962,022)	**(64,422,799)**
Net foreign exchange result	(24,560,706)	6,098,884	3,259,120	-	**(15,202,702)**
Profit before income tax	**37,889,322**	**3,961,516**	**63,883,855**	**(15,912,795)**	**89,821,898**
Income tax	-	-	(1,883,916)	-	**(1,883,916)**
Net Profit	**37,889,322**	**3,961,516**	**61,999,939**	**(15,912,795)**	**87,937,982**
Depreciation and amortisation	131,120,228	31,149,838	34,784,222	(4,142,463)	**192,911,825**

2016 Statement of financial position information

USD	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non-current assets	1,657,832,014	232,348,038	(596,927,621)	1,293,252,431
Total current assets	306,514,311	250,542,299	(23,571,919)	533,484,691
TOTAL ASSETS	**1,964,346,325**	**482,890,337**	**(620,499,540)**	**1,826,737,122**
Total equity	892,127,164	186,779,797	(600,282,699)	478,624,262
Total non-current liabilities	132,946,441	132,115,687	5,013,700	270,075,828
Total current liabilities	939,272,720	163,994,853	(25,230,541)	1,078,037,032
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,964,346,325**	**482,890,337**	**(620,499,540)**	**1,826,737,122**
Capital expenditure	37,037,111	24,560,668	(155,105)	**61,442,674**
Impairment losses	-	(351,877)	-	**(351,877)**

RON	Refining & Petrochemicals	Marketing	Consolidation adjustments	Consolidated
Total non-current assets	6,617,236,484	927,417,195	(2,382,636,599)	5,162,017,080
Total current assets	1,223,451,872	1,000,039,586	(94,087,312)	2,129,404,146
TOTAL ASSETS	**7,840,688,356**	**1,927,456,781**	**(2,476,723,911)**	**7,291,421,226**
Total equity	3,560,925,575	745,531,560	(2,396,028,393)	1,910,428,742
Total non-current liabilities	530,655,719	527,339,765	20,012,184	1,078,007,668
Total current liabilities	3,749,107,062	654,585,456	(100,707,702)	4,302,984,816
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**7,840,688,356**	**1,927,456,781**	**(2,476,723,911)**	**7,291,421,226**
Capital expenditure	147,833,632	98,033,902	(619,102)	**245,248,432**
Impairment losses	-	(1,404,517)	-	**(1,404,517)**

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

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

23.OPERATING SEGMENT INFORMATION (continued)

b) Geographical segments

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

	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	USD	USD	RON	RON
Romania	**801,258,223**	**643,272,461**	**3,198,222,197**	**2,567,622,028**
Export	**473,165,221**	**509,871,657**	**1,888,638,980**	**2,035,152,718**
out of which				
Petroleum products	433,006,895	456,136,690	1,728,347,022	1,820,669,597
Petrochemical products	40,158,326	53,734,967	160,291,958	214,483,121
Total	**1,274,423,444**	**1,153,144,118**	**5,086,861,177**	**4,602,774,746**

24. RELATED PARTIES

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

Name of related party	**Nature of relationship**
KMG International N.V.	Majority Shareholder
Byron Shipping Ltd.	Company owned by KMG International Group
Byron Shipping SRL	Company owned by KMG International Group
Global Security Systems S.A.	Company owned by KMG International Group
KazMunayGas Engineering B.V.	Company owned by KMG International Group
KazMunayGas Trading AG	Company owned by KMG International Group
KMG Rompetrol S.R.L	Company owned by KMG International Group
KMG Rompetrol Services Center (former Rompetrol Exploration and Production S.R.L)	Company owned by KMG International Group
Midia Marine Terminal S.R.L.	Company owned by KMG International Group
Palplast S.A.	Company owned by KMG International Group
KazMunayGas –Engineering LLP (former Rominserv Kazahstan LTD)	Company owned by KMG International Group
Rominserv S.A.	Company owned by KMG International Group
Rominserv Valves Iaifo SRL	Company owned by KMG International Group
Rominservices Therm S.R.L.	Company owned by KMG International Group
Rompetrol Albania Wholesale Sh.A.	Company owned by KMG International Group
Rompetrol Bulgaria JSC	Company owned by KMG International Group
Rompetrol Energy S.A.	Company owned by KMG International Group
Rompetrol Financial Group S.R.L.	Company owned by KMG International Group
Rompetrol Georgia LLC	Company owned by KMG International Group
Rompetrol Moldova SA	Company owned by KMG International Group
Oilfield Exploration Business Solutions S.A. (former Rompetrol S.A.)	Company owned by KMG International Group
Rompetrol Ukraine LLC	Company owned by KMG International Group
Rompetrol Well Services S.A.	Company owned by KMG International Group
TRG Petrol Ticaret Anonim Sirketi	Company owned by KMG International Group
Dyneff SA	Associate of KMG International Group
Uzina Termoelectrica Midia S.A.	Associate of KMG International Group
Kazmotransflot	Company affiliated to KMG International Group
Tengizchevroil LLP	Company affiliated to KMG International Group

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

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Balances at the year-end are unsecured (except for some related parties loans), interest free (except for shareholders loans) and settlement occurs in cash. The Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

	Receivables and other assets			
Name of related party	**30-June-17**	**31-Dec-16**	**30-June-17**	**31-Dec-16**
	USD	**USD**	**RON**	**RON**
KazMunayGas Trading AG	4,756,347	4,628,871	18,984,959	18,476,139
Rominserv S.A.	4,013,913	4,935,299	16,021,534	19,699,246
KMG International N.V.	1,013,110	619,260	4,043,829	2,471,776
KMG Rompetrol S.R.L	113,271,010	34,126,173	452,121,236	136,214,620
Oilfield Exploration Business Solutions S.A.	4,879,400	5,551,511	19,476,125	22,158,856
Rompetrol Well Services S.A.	293,164	464,799	1,170,164	1,855,245
KMG Rompetrol Services Center	13,405	78,554	53,506	313,548
Palplast S.A.	1,339,024	1,241,923	5,344,714	4,957,136
Rompetrol Bulgaria JSC	1,694,362	2,222,376	6,763,046	8,870,614
Rompetrol Moldova SA	5,680,447	11,175	22,673,504	44,605
KazMunayGas Engineering B.V.	3,573	3,573	14,262	14,262
Rompetrol Energy S.A.	601	558	2,399	2,227
Byron Shipping SRL	1,959	1,582	7,819	6,315
Rompetrol Albania Wholesale Sh.A.	12,466	11,532	49,758	46,030
Midia Marine Terminal S.R.L.	298,658	327,356	1,192,093	1,306,641
Rominserv Valves Iaifo SRL	14,238	6,600	56,831	26,344
Rominserv Kazakhstan LTD	168,167	168,167	671,239	671,239
Rompetrol Ukraine LLC	8,118	7,802	32,403	31,142
Uzina Termoelectrica Midia S.A.	1,114,685	1,933,289	4,449,265	7,716,723
TRG Petrol Ticaret Anonim Sirketi	335,349	-	1,338,546	-
Global Security Systems S.A.	233,421	153,990	931,700	614,651
Tengizchevroil LLP	372,809	13,347	1,488,067	53,275
Total	**139,518,226**	**56,507,737**	**556,886,999**	**225,550,634**

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

24.RELATED PARTIES (continued)

	Payables, loans and other liabilities			
Name of related party	**30-June-17**	**31-Dec-16**	**30-June-17**	**31-Dec-16**
	USD	**USD**	**RON**	**RON**
KazMunayGas Trading AG	451,867,430	440,019,411	1,803,628,847	1,756,337,479
Rominserv S.A.	32,560,457	28,249,425	129,965,064	112,757,580
KMG International N.V.	188,123,869	225,778,122	750,896,423	901,193,374
KMG Rompetrol S.R.L	158,222,387	93,544,858	631,544,658	373,384,301
Oilfield Exploration Business Solutions S.A.	215,465	193,694	860,029	773,130
Rompetrol Exploration and Production S.R.L	17	15	68	60
Rompetrol Well Services S.A.	8,688,249	8,021,032	34,679,146	32,015,949
KMG Rompetrol Services Center	1,128,892	1,080,058	4,505,972	4,311,052
Rompetrol Bulgaria JSC	108,498	603	433,070	2,407
Rompetrol Moldova SA	7,520,033	818,638	30,016,212	3,267,594
Rompetrol Financial Group S.R.L.	31,277,417	28,607,725	124,843,810	114,187,734
Byron Shipping Ltd.	2,211	2,045	8,825	8,163
Byron Shipping SRL	-	1,108	-	4,423
Midia Marine Terminal S.R.L.	40,577,720	35,442,825	161,965,969	141,470,036
Rominserv Valves Iaifo SRL	52,033	27,443	207,690	109,539
Uzina Termoelectrica Midia S.A.	2,897,270	2,896,375	11,564,453	11,560,881
Global Security Systems S.A.	449,219	514,462	1,793,058	2,053,475
Total	**923,869,554**	**865,197,839**	**3,687,625,326**	**3,453,437,177**

During 2017 and 2016, Rompetrol Rafinare Group entered into the following transactions with related parties:

	Sales and other revenues			
Name of related party	**30-June-17**	**30-June-16**	**30-June-17**	**30-June-16**
	USD	**USD**	**RON**	**RON**
KazMunayGas Trading AG	327,463,654	388,819,591	1,307,071,175	1,551,973,397
Rominserv S.A.	409,171	421,757	1,633,206	1,683,443
KMG Rompetrol S.R.L	70,913	68,385	283,049	272,959
Oilfield Exploration Business Solutions S.A.	2,156	1,983	8,606	7,915
Rompetrol Well Services S.A.	303,356	265,258	1,210,845	1,058,777
Palplast S.A.	6,406	9,098	25,570	36,315
Rompetrol Bulgaria JSC	16,626,627	16,494,880	66,365,182	65,839,314
Rompetrol Moldova SA	79,347,626	47,224,644	316,716,049	188,497,167
TRG Petrol Ticaret Anonim Sirketi	7,911,827	-	31,580,057	-
KMG Rompetrol Services Center	65,750	-	262,441	-
Midia Marine Terminal S.R.L.	192,615	180,472	768,823	720,354
Byron Shipping SRL	10,094	11,130	40,290	44,425
Rominserv Valves Iaifo SRL	3,151	5,024	12,577	20,053
Uzina Termoelectrica Midia S.A.	8,353,430	6,931,451	33,342,716	27,666,887
Global Security Systems S.A.	52,809	54,773	210,787	218,626
	440,819,585	**460,488,446**	**1,759,531,373**	**1,838,039,632**

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

24.RELATED PARTIES (continued)

		Purchases and other costs			
Name of related party	**Nature of transaction**	**30-June-17 USD**	**30-June-16 USD**	**30-June-17 RON**	**30-June-16 RON**
KazMunayGas Trading AG	Purchase of crude oil	905,335,551	817,797,738	3,613,646,852	3,264,239,671
Rominserv S.A.	Acquisition and maintenance of fixed assets	39,791,902	19,580,638	158,829,377	78,156,117
KMG International N.V.	Management services	4,736,381	760,790	18,905,265	3,036,693
KMG Rompetrol S.R.L	Management services	12,618,554	13,322,350	50,366,958	53,176,160
Oilfield Exploration Business Solutions S.A.	Management services	11,781	29,572	47,024	118,037
Rompetrol Well Services S.A.	Interest on loan	158,414	15,807	632,309	63,094
Rompetrol Financial Group S.R.L.	Interest on loan	537,209	-	2,144,270	-
KMG Rompetrol Services Center	Shared services	3,167,557	-	12,643,304	-
Midia Marine Terminal S.R.L.	Handling services/Transit	8,468,358	10,064,077	33,801,451	40,170,763
Byron Shipping SRL	Shipping services	-	418	-	1,668
Rominserv Valves Iaifo SRL	Valves	46,785	47,505	186,742	189,616
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	13,362,452	11,331,313	53,336,227	45,228,936
Global Security Systems S.A.	Security and protection services	1,565,275	1,568,532	6,247,795	6,260,795
Tengizchevroil LLP	Liquefied Petroleum Gas	8,112	2,878,144	32,379	11,488,112
		989,808,331	**877,396,884**	**3,950,819,953**	**3,502,129,662**

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

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

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

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

25.EARNINGS PER SHARE

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

	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	USD	USD	RON	RON
Earnings				
Profit /(Loss) for the year attributable to ordinary equity holders of the parent entity	(8,087,790)	21,460,687	(32,282,413)	85,660,328
Number of shares				
Weighted average number of shares for the purpose of basic earnings per share (see Note 11)	44,109,205,726	44,109,205,726	44,109,205,726	44,109,205,726
Earnings per share *(US cents/share)*				
Basis	**(0.018)**	**0.049**	**(0.072)**	**0.196**

26.CONTINGENCIES

a) Related to the Parent's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 11.95 million) to be paid by the Parent based on an inspection carried out in 2003. These claims (the legal effects) were suspended by the local court for admission. Subsequently, a second suspension has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.) until the final sentence regarding the related criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see first case in note 27). The management is confident that the Parent is able to defend itself and the likelihood of a negative outcome is considered remote.

b) In 2001, the Parent processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Parent were challenged by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Parent cancelled such invoices. The Parent is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Parent liable for paying such excises; the Parent appealed the tax audit, which is now being suspended as for the same reason described in the paragraph above. The amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.38 million). The management is confident that the likelihood of reversal of the earlier court decision is very low. No changes were incurred in 2017.

c) ANAF - DGAMC started in October 2016 the general fiscal audit referring to the fiscal period 2011-2015, taxes covered: income tax, VAT, WHT and excises. As of date of these financial statements, the tax audits are in progress, there are no effective information regarding any potential fiscal findings or tax adjustments. The Company subject to general fiscal audit is Rompetrol Rafinare SA.

27.LEGAL MATTERS

Litigation with the State involving criminal charges

Starting with March 22, 2005, a number of criminal investigations have been initiated against certain current and former shareholders directors, managers and external censors of S.C. 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 Parent;
b) unlawful statement of excises and other debts to the state budget;
c) incorrect keeping of accounting registries regarding the technological products operations undertaken at the oil terminal owned by Oil Terminal, charges which concern events that took place during April 2001 – October 2002;
d) adoption of GEO no. 118/2003.

Considering the above mentioned charges, a freezing orders 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.

The companies already submitted the challenges against the Orders within 3 days (namely on 12 and 13 of May 2016).

After two hearings in front of the Constanta Court, the case was assigned to be settled by the Supreme Court, who rejected in full the challenging submitted by Group’s subsidiaries.

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

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

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

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

27.LEGAL MATTERS (continued)

Finally, on May 10 and June 28, 2017 the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivables, RRC privatisation and post-privatization period, privatization of Vega refinery and the issuance of bonds (OUG 118/2003), intra-company's 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.

On July 22, 2016 NC KMG and KMGI submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty.

The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. Based on our knowledge the Romanian authorities received this Notice on July 25, 2016. According to the above-mentioned treaties starting with July 25, 2016 commenced a 3 (three) to 6 (six) month period within the KMG companies and Romanian State may reach a settlement. Romanian authorities through the Ministry of Finance issued a response in October 2016 citing that all steps took by the Romanian state, through its public authorities, were conducted in compliance with the agreements put forward by KMG and KMGI in the notification of amicable settlement of the dispute.

After the expiration of this period, should a settlement between KMG and Romania fail to be reached, the case could be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank, headquartered in Washington, D.C or to the Arbitration Institute of the Stockholm Chamber of Commerce, in line with the provisions of the treaties and with KMG companies' envisaged reliefs and measures to be obtained.

27.LEGAL MATTERS (continued)

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

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

The main arguments put forward by Rompetrol Rafinare for its administrative appeal were: it had used and benefitted from the management and advertising service referred to; it has related justifying documents that were not taken into consideration by the tax authorities; and the Tax authorities did not consider the definition provided by the Fiscal Code and its Application Norms, as well as, applicable, Double Tax Treaties and Commentaries to the OECD model conventions as regards definition of royalties versus services.

Although Rompetrol Rafinare considers that it has met all technical requirements and it is challenging all the items included in the report issued by the National Agency for Tax Administration, there is a chance that Rompetrol Rafinare may not recover the amount in whole or part, based on the high ambiguity in respect of the legislation and the court practice in a similar case in Romania. Therefore, a provision has been recognized for an overall amount of USD 15 million, out of which USD 11 million was expensed during 2012.

The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27th of October 2014 by Constanta Court of Apeal which partially annulled both Decision no. 33 and the Assessment Decision for payment of RON 48 million. (equivalent USD 14.1 million).

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

This Decision is not final, both Rompetrol Rafinare and National Agency for Tax Administration appealed against it in front of the Supreme Court of Justice. The report of the Supreme Court of Justice has been communicated to Rompetrol Rafinare SA, according to which both appeals have been admitted in principle. A second term is established on 30 March 2017, in order to check the appeals under the other aspects. At this term, the Supreme Court of Justice established the first hearing term on September 29th, 2017 (it is the first term for which the parties will receive a subpoena).

Litigation regarding CO2 emission allowances.

On February 28, 2011 Rompetrol Rafinare S.A. won a 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. 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. The market value for a CO2 emission certificate was EUR 5.4 per certificate as of December 2016.

Considering that the Ministry of Environment and the Romanian Government did not fulfill with the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of EUR 36 million.

27.LEGAL MATTERS (continued)

On April 24, 2014, the court rejected the Rompetrol' s claim on a reason that "is lack of object". Rompetrol appealed the Decision in front of the Supreme Court. The first hearing is set by the Supreme Court for June 3rd, 2016. Last hearing was on 21.10.2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment, and send the cause to the same first instance (Constanta Court of Appeal) for retrial.

Additionally, Rompetrol Rafinare launched a new legal enforcement procedure in front of the Constanta Court of Appeal, based on some new and much clearer provisions of law.

On July 6, 2015 Constanta Court of Appeal admitted partially the claim and fined the representative of the Government and Ministry of Environment for non-performance of the enforcement of the decision by which the Company received a number of 2,577,940 CO_2 emission certificates. The decision is subject to appeal.

As a consequence, on July 28th, 2015 the Government Decision no. 611/2015 was issued, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 and increasing the allocation of the Company with the amount of 2,577,940 CO_2 emission certificates; this decision is due to be fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The Government Decision has still not been implemented.

On October 27, 2015, in order to secure all its rights and the full enforcement of the above-mentioned court and government decisions, Rompetrol Rafinare filed a last court enforcement procedure, having as object to oblige the defendants to pay the counter value of the 2.577.940 CO_2 emission certificates (i.e. 40 million Euro in total) in case they will fail to implement in due time the initial and final court decision and the Government Decision no. 611/2015. On February 3rd 2016, the Constanta Court of Appeal decided to postpone the procedure until the Supreme Court will pronounce a decision in another related case (Case file no. 917/36/2013), regarding the appeal of Rompetrol Rafinare against court decision to reject our claims as lack of object, with last hearing term for October 21st 2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment, and sent the cause to the same first instance (Constanta Court of Appeal) for retrial. First hearing for retrial was set on September 7, 2017.

Rompetrol Rafinare requested the resetting the cause of pending, and the first hearing took place in the Constanta Court of Appeal on April 6th, 2016. At this hearing term, Rompetrol Rafinare request to reset the cause of pending was dismissed. Following the finalization of the case file no. 917/36/2013 by a decision dated October 21st, 2016, a new reopening request was submitted in Case file no. 712/36/2015, which was examined on January 11, 2017, when Rompetrol Rafinare request to reset the cause of pending was also dismissed.

<u>Litigation between Rompetrol Downstream SRL and RATB (Bucharest public transport company)</u>

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

Rompetrol Downstream timely and fully observed its obligation to supply RATB with needed quantities of fuel during those 4 years, however the related IT system was implemented on a gradual basis till 16 until September 2015.

On 16 October 2015 RATB submitted to Court the claim for damages in amount of RON 62.4 million (approximately USD 15 million). The amount concerns the enforcement of penalty clause in amount of 15% of frame contract turnover for not observing the contractual obligations relating to the implementation of the IT system.

On 27 October 2015, based on the tender book terms and conditions, RATB asked the enforcement of the bank letter guarantee provided by DWS for the amount of RON 5.7 million.

27.LEGAL MATTERS (continued)

The first hearing took place on February 23, 2016. The decision was released on April 22, 2016 and the Court rejected the claim of RATB for not performing the preliminary mandatory formalities. The decision is subject of appeal. The Bucharest Court of Appeal admitted both Parties appeals, repealed the 1st court decision and sent the file again to the 1st court (Bucharest Tribunal) for judgement on the merits of the case.

Besides the claim above mentioned, in June 2016 Rompetrol Downstream received another 3 similar claims in an aggregate amount of RON 136 million by which RATB asked the same amount for each contractual year (Cases no. 2-4). The Company challenged the claims within the provided term. On November 14 the Court ruled in the Company's favour and rejected the RATB' claim as being non-admissible as a result of admittance of the procedural objection raised by the Company (this decision being subject of appeal). RATB filled in the appeal against the 1st court decision and the appeal was rejected by the superior court on the 20th of April 2017. The decision in this case is final.

The others two files had the following hearings: October 25, 2016 when the Bucharest Tribunal admitted the Company' request and suspended the judgment of the file until the date when the Case no. 1 shall be irrevocably settled by the court (Case no. 3); and November 1, 2016 when the Court ruled in the Company's favour and rejected the RATB' claim as being non-admissible as a result of admittance of the procedural objection raised by the Company (Case no. 4) (this case passed to the appeal stage and the first hearing was scheduled for January 25, 2017).The Court rejected the appeal as groundless. The decision is final.

Litigation between Rompetrol Rafinare and Navodari City Hall

On November 19th, 2015, it was finalized the audit of the local taxes, done by Navodari City Hall, for the period of 2012-2014. The only non-compliant finding refers to revaluation of buildings made by the company on 31.12.2009 and 31.12.2011, namely that because the revaluation was not made for all fixed assets accounted for in the account 212 "Construction", in their view it was made without observing the accounting regulation 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 penalties related 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).

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. This solution is based on Navodari Local Council Decision no.435/December 21st, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalities.

Rompetrol Rafinare submitted in court the challenge against this decision, and also another action for partial annulment of Navodari Local Decision no.435/2015 at Constanta Court of Appeal. On March 16th, 2017 Constanta Court of Appeal dismissed the challenge submitted by Rompetrol Rafinare against the decision issued by Navodari City Hall. The solution will be appealed.

The second action, submitted by Rompetrol Rafinare for partial annulment of Navodari Local Council Decision no. 435/December 21st, 2015 was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Concil on Constanta Court of Appeal, where the first hearing term is set on January 16th, 2017, when the appeal was rejected.

Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defense was submitted by Navodari City Hall and the first hearing term was established for February 22nd, 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19th , 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the Supreme Court of Justice. The first hearing term before the Supreme Court was not yet been scheduled.

27.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 safe access and operation of ships, 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 1.87 million - dredging expenditures; USD 3.3 million - commercial loss; the complaint is in course of analysis at the Competition Council. By means of the lodged complaint, the Competition Council was asked to acknowledge the violation by Administraţia 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, inclusively in terms of cost incurrence, the obligations resting upon it as administrator of port areas and of 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 (USD 0.85 mil) and for restitution of dredging expenses (1.7 mil USD). The total amount in RON is today RON 10 million (USD 2.6 million). The case is pending on Constanta Tribunal, with next hearing for May 19th, 2017. At this date, 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: a) The equivalent in lei, at the exchange rate euro/leu , fixed by the National Bank of Romania, on the day of payment, the amount of EUR 1,570,000 representing dredging expenditures paid by Rompetrol Rafinare SA , during the period 30 April 2015 - 11 May 2015 ; b) The amount of 78.67 thousand lei - legal costs (of which 73.17 thousand lei - judicial stamp duties and 5,500 lei - the fees of experts and dismissals).

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, resulting in a fire, which was extinguished by Refinery' staff and firemen from private and public services. Following the event, two persons, 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, injury and the decease of employees. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and opened 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 of the two companies were put on trial for: the non-observance of the legal labour health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party. As a result of the completion of the initial phase of the files, of preliminary chamber procedure, the court decided on 01.03.2017: have been accepted in part the applications and the exceptions made by the defendants, it has been found the relative nullity of the indictment no. 586/P/2016 07.12.2016 from the Prosecutor's Office under the Constanta Court of Appeal, it has been found the irregularity that attracts the impossibility to the establishment of the object or judgment on the indictment no. 586/P/2016 of 7.12.2016, prosecutor must communicate to the judge of preliminary room whether to maintain the provision referred to in the judgment or request the refund case, within 5 days from the date of the communication of the solution. By the final conclusion of Preliminary Chamber procedure, no. 328 / 03.21.207 communicated to Rompetrol Rafinare on March 27, 2017 the court ordering, 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 / 29.11.2016, irregularity of the indictment 586 / P / 12.7.2016 prosecutor failure to respond within procedural terms. The solution can be appealed within three days from the communication of the final solution of the preliminary chamber. 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. On the other hand, it was admitted the request filed by RIS 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.

Also on May 25, 2017 Rompetrol Rafinare and RIS received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. Against this reply the companies will fill in an application to the court.

28.COMMITMENTS

Environmental commitments

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

The Company has recognized a provision for restoration cost at its Vega location, see Note 16.

As of June 30, 2017, and December 31,2016 Rompetrol Rafinare S.A. has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega obligations, which have been provisioned.

At the end of March 2017, Rompetrol Rafinare SA has achieved its annual compliance with regulatory requirements for greenhouse gas emissions (CO2) by returning a number of allowances equivalent to 2016 emissions.

Other commitments

As of June 30, 2017, Rompetrol Rafinare S.A. has contracted capital commitments for projects related to capital maintenance, authorizations and compliance with Euro standards at the Petromidia refinery of USD 48.5 million (2016: USD 55.3 million). As of June 30, 2017, Rompetrol Downstream S.R.L has contracted capital commitments of USD 4.89 million (2016: USD 4.27 million).

Rompetrol Downstream S.R.L. has certain concession and rental agreements with local authorities and other companies/individuals in Romania for plots of land. Usually the conditions for these agreements are the following: terms from 5 to 49 years, fixed or variable fees per year. According to these agreements, the approximate amount to be paid in 2018 is USD 5.32 million within one year, and USD 0.32 million after one year but not more than five years (USD 5.03 million in 2017).

Sale and purchase commitments

As of June 30, 2017, the main Group's commitments relate to Rompetrol Rafinare S.A. which has non-group commitments for purchases of raw materials and utilities of USD 2,460.9 million (2016: USD 2,102.8 million) and for sales of petroleum, petrochemicals products and utilities sales of USD 1,125.75 million (2016: USD 1,724.08 million).

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29. 1. Capital risk management

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

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

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

29.2. Gearing ratio

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

	June 30, 2017	December 31, 2016
Debt (excluding shareholder loans and related parties)	236,917,423	214,051,063
Cash and cash equivalents	(6,807,345)	(15,810,298)
Net debt	**230,110,078**	**198,240,765**
Equity (including shareholder loans and related parties)	706,041,120	746,878,231
Net debt to equity ratio	**0.33**	**0.27**

29.3. Categories of financial instruments and fair values

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

	June 30, 2017	December 31, 2016
Financial assets		
Trade and other receivables	371,108,919	263,774,358
Long-term receivables	1,604,312	1,480,888
Available for sale investments	18,583	18,583
Derivative financial instruments	401,671	5,340
Cash and cash equivalents	6,807,345	15,810,298
TOTAL FINANCIAL ASSETS	**379,940,830**	**281,089,467**
Financial liabilities		
Long-term borrowings	-	193,162,805
Derivative financial instruments	-	323,130
Short term borrowings from shareholders	233,733,109	268,253,969
Other non-current liabilities	190,173	177,110
Trade and other payables	805,743,933	725,513,525
Short-term borrowings banks	236,917,423	20,888,258
TOTAL FINANCIAL LIABILITIES	**1,276,584,638**	**1,208,318,797**

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

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

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

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

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

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

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Group enters into derivative financial instruments with various counterparties. As at 30 June 2017, the marked to market value of derivative position is for financial instruments recognized at fair value.

29.4. Fair value hierarchy

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

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

	June 30, 2017	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	371,108,919	371,108,919	-	-
Long-term receivables	1,604,312	1,604,312	-	-
Available for sale investments	18,583	18,583	-	-
Derivative financial instruments	401,671	-	401,671	-
Cash and cash equivalents	6,807,345	6,807,345	-	-
TOTAL FINANCIAL ASSETS	**379,940,830**	**379,539,159**	**401,671**	**-**
Financial liabilities				
Short term borrowings from shareholders	233,733,109	233,733,109	-	-
Other non-current liabilities	190,173	190,173	-	-
Trade and other payables	805,743,933	805,743,933	-	-
Short-term borrowings banks	236,917,423	236,917,423	-	-
TOTAL FINANCIAL LIABILITIES	**1,276,584,638**	**1,276,584,638**	**-**	**-**

	December 31, 2016	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	263,774,358	263,774,358		-
Long-term receivables	1,480,888	1,480,888		-
Available for sale investments	18,583	18,583		-
Derivative financial instruments	5,340	-	5,340	-
Cash and cash equivalents	15,810,298	15,810,298	-	-
TOTAL FINANCIAL ASSETS	**281,089,467**	**281,084,127**	**5,340**	**-**
Financial liabilities				-
Long-term borrowings	193,162,805	193,162,805		-
Derivative financial instruments	323,130		323,130	-
Short term borrowings from shareholders	268,253,969	268,253,969		-
Other non-current liabilities	177,110	177,110		-
Trade and other payables	725,513,525	725,513,525		-
Short-term borrowings banks	20,888,258	20,888,258	-	-
TOTAL FINANCIAL LIABILITIES	**1,208,318,797**	**1,207,995,667**	**323,130**	**-**

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

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

During the reporting period ending 30 June 2017 and 31 December 2016, 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.

29.5 Derivative financial instruments

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

Balance Sheet:

	June 30, 2017	December 31, 2016
Derivative financial asset	401,671	5,340
Derivative financial liability	-	(323,130)
Net position - asset/(liability)	**401,671**	**(317,790)**

Income Statement:

	June 30, 2017	June 30, 2016
Unrealised (gains)	-	201,000
Net position - (gain)/loss - in Cost of sales	**-**	**201,000**
Realised losses - net	1,020,476	(1,494,534)
Total position - loss/(gain) - in Cost of sales	**1,020,476**	**(1,293,534)**

	June 30, 2017	December 31, 2016
Derivative asset/(liability) 2016	**(317,790)**	**(626,926)**
Forex unrealized (hedging of forex)	-	-
Cash payments	5,576	1,426,383
Reserves	713,885	(1,117,247)
Derivative asset/(liability) 2017	**401,671**	**(317,790)**

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

29.6 Market risk

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

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

29.7. Foreign currency risk management

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

29.8. Interest rate risk management

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Group to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Group's borrowings, are provided in Notes 12 and 15.

29.9. Commodity price risk

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

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream) is hedged using future contracts traded on ICE Exchange and some OTC instruments. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. Based on the expectations of crude oil price increase, at the beginning of 2016, the hedge strategy for 2016 was split between futures and options while a certain quantity above base operating stock was left unhedged.

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

29.10. Credit risk

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

Trade receivables

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to KazMunayGas Trading AG, a related party represent 26% of the Group's revenues. The requirement for impairment is analyzed on a regular basis, being undertaken on an individual basis as well as collectively on the basis of ageing.

29.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial instruments and bank deposits

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

30. SUBSEQUENT EVENTS

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 13 million has been extended until September 10, 2017.

Facility granted to Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 7 million has been extended until August 14, 2017.

Facility granted Rompetrol Rafinare S.A. by Rompetrol Well Services S.A. in amount of RON 3.1 million has been extended until September 3, 2017.

Facilities granted to Rompetrol Rafinare S.A. by Bancpost in amount of EUR 30 million, respectively EUR 27.96 million have been extended until July 31, 2018.

On July 17, 2017, Rompetrol Rafinare SA and the affiliates KMG International NV and Oilfield Exploration Business Solutions SA received an ordinance issued by DIICOT which mandates the continuation of the criminal investigation of deeds attributed to the 1998-2003 period and of the grounds for the company's civil liability for part thereof.

As before, the company will further cooperate with the authorities in a transparent way with the aim that the investigations complete in due course and in full observance of the company's rights.

This new procedural deed does not affect the daily activity of Rompetrol refineries the operations of which are being carried out in the normal course.

However, the company continues to work with its local and international legal advisors to use all legal means to protect its investments, activities and current operations as well as its reputation.

The company will provide further information once there will be clarified the aspects related to the company's liability for the deeds currently pending investigation.

The national oil and gas company of Kazakhstan - KazMunayGas became in August 2007 the major shareholder, and in 2009 the sole shareholder, of The Rompetrol Group (currently named KMG International NV) that the company is a part of.

ROMPETROL RAFINARE S.A.

UNAUDITED 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

30 JUNE 2017

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	Notes	June 30, 2017	December 31, 2016
Intangible assets	3	15,613,500	16,724,850
Goodwill	4	152,720	152,720
Property, plant and equipment	5	2,998,384,365	3,018,053,823
Financial assets	6	1,629,020,055	1,629,020,055
Deferred tax asset	20	271,373,514	271,373,514
Total non current assets		**4,914,544,154**	**4,935,324,962**
Inventories, net	7	724,322,835	816,627,179
Receivables and prepayments, net	8	1,239,090,639	1,018,626,207
Derivative Financial Instruments	27	1,292,281	22,980
Cash and cash equivalents	9	8,391,419	45,891,549
Total current assets		**1,973,097,174**	**1,881,167,915**
TOTAL ASSETS		**6,887,641,328**	**6,816,492,877**
Subscribed share capital	10	4,410,920,573	4,410,920,573
Share premium	10	232,637,107	232,637,107
Other reserves	10	3,170,938,161	3,169,670,514
Accumulated losses		(6,486,327,206)	(6,556,328,713)
Current year result		171,150,855	70,001,508
Total equity		**1,499,319,490**	**1,326,900,989**
Long-term borrowings from banks	13	-	281,763,783
Provisions	14	302,311,412	302,311,412
Total non-current liabilities		**302,311,412**	**584,075,195**
Trade and other payables	11	3,696,044,666	3,750,363,002
Derivatives	27	-	-
Short-term borrowings from affiliates	12	859,686,316	1,065,970,431
Short-term borrowings from banks	12	530,279,444	89,183,260
Total current liabilities		**5,086,010,426**	**4,905,516,693**
TOTAL LIABILITIES AND EQUITY		**6,887,641,328**	**6,816,492,877**

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

	Notes	January - June 2017	January - June 2016
Net revenues	15	4,729,016,743	4,133,145,499
Cost of sales	16	(4,589,342,718)	(3,909,427,704)
Gross profit / (loss)		**139,674,025**	**223,717,795**
Selling, general and administrative expenses	17	(135,456,052)	(106,713,648)
Other operating revenues / expenses, net	18	(25,074,916)	19,765,121
Operating profit/ (loss)		**(20,856,943)**	**136,769,268**
Financial expenses	19	(83,461,563)	(60,482,772)
Financial revenues	19	38,090,988	9,274,823
Net foreign exchange gains / (losses)	19	237,378,373	57,305,326
Profit/(loss) before income tax		**171,150,855**	**142,866,645**
Deferred tax	20	-	-
Net Profit / (Loss)		**171,150,855**	**142,866,645**
Earnings per share *(bani/share)*	23	0.39	0.32

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	1st Semester 2017	**1st Semester 2016**
Net Profit / (Loss)	**171,150,855**	**142,866,645**
Other comprehensive income		
Actuarial gain / (losses) relating to retirement benefits	-	-
Gains / (losses) from derivatives	1,267,646	-
Other comprehensive income for the year, net of tax	**1,267,646**	**-**
Total comprehensive income for the year, net of tax	**172,418,501**	**142,866,645**

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	June 30, 2017	June 30, 2016
Net result before income tax	**171,150,855**	**142,866,645**
Adjustments for:		
Depreciation and amortisation	132,853,494	138,304,455
Provisions for receivables and inventories (incl write-off)	7,903,903	(16,682,923)
Provision for environmental liabilities and litigations	-	-
Restructuring and retirement benefit provisions	-	-
Expenses with penalties	491,440	98,257
Interest expenses	83,429,793	62,650,021
Inrerest income	(38,070,422)	(9,274,823)
Income from dividends	-	-
Losses/gains from derivatives	(1,655)	-
(Gain)/Loss on sale or disposal of property, plant and equipment	-	-
Unrealised foreign exchange (gain)/loss from restatement and monetary items	(246,723,366)	(26,805,623)
Cash generated from operations before working capital changes	**111,034,042**	**291,156,009**
Net working capital changes in:		
Receivables and prepayments	(249,641,136)	(110,528,308)
Inventories	84,400,441	(74,509,784)
Trade and other payables, including payables variation for capital expenditures	328,636,108	384,636,381
Change in working capital	**163,395,413**	**199,598,289**
Cash payments for derivatives, net	31,769	-
Net cash provided by/(used in) operating activities	**274,461,224**	**490,754,298**
Cash flows from investing activities		
Purchase of property, plant and equipment	(111,718,588)	(213,895,147)
Purchase of intangible assets	(354,096)	(49,547)
Dividends received	-	-
Net cash used in investing activities	**(112,072,684)**	**(213,944,694)**
Cash flows from financing activities		
Cash pooling	(196,007,965)	(148,378,377)
Short - term loans/ (repaid to) received from banks, net	181,480,729	(73,281,788)
Long - term loans received from banks	-	144,806,117
Long - term loans repaid to banks	-	(143,373,660)
Short - term loans (repaid to)/ received from shareholders	(101,931,642)	16,603,461
Interest and bank charges paid, net	(83,429,793)	(53,375,198)
Net cash from financing activities	**(199,888,671)**	**(256,999,445)**
Increase / (Decrease) in cash and cash equivalents	**(37,500,131)**	**19,810,159**
Cash and cash equivalents at the beginning of period	**45,891,549**	**6,773,869**
Cash and cash equivalents at the end of the period	**8,391,419**	**26,584,028**

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Explanatory notes from 1 to 28 are part of these financial statements

	Share capital	Share premium	Acumulated losses	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 1st Semester 2016	-	-	142,866,645	-	**142,866,645**
Actuarial gain/losses related to retirement benefits	-	-	-	-	-
Gains/losses related to derivative financial instruments	-	-	-	-	-
Other comprehensive income for H1 2016	-	-	-	-	-
Transfer to reserves	-	-	-	-	-
30th of June 2016	**4,410,920,573**	**232,637,107**	**(6,409,961,993)**	**3,172,596,294**	**1,406,191,981**
1st of January 2017	**4,410,920,573**	**232,637,107**	**(6,486,327,205)**	**3,169,670,514**	**1,326,900,989**
Net profit for 1st Semester 2017	-	-	171,150,855	-	**171,150,855**
Actuarial gain/losses related to retirement benefits	-	-	-	-	-
Gains/losses related to derivative financial instruments	-	-	-	1,267,646	1,267,646
Other comprehensive income for H1 2017	-	-	-	**1,267,646**	**1,267,646**
Transfer to reserves	-	-	-	-	-
30th of June 2017	**4,410,920,573**	**232,637,107**	**(6,315,176,350)**	**3,170,938,160**	**1,499,319,490**

DUMITRU CATALIN
President of the Board of Directors

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Chief Financial Officer

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Alexandru Cornel Anton

1. GENERAL

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

Rompetrol Rafinare S.A. production facilities are located in Romania. The number of employees of the Company as at 30 June 2017 is 1,066, respectively 1,1077 as at 31 December 2016.

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

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

The Company is a part of the KMG International N.V 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, at the section Relation with Investors, subsection Rompetrol 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 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 30 June 2017 and 31 December 2016, the Company reported net assets amounted to RON 1,499 million and RON 1,327 million respectively. For the exercise ended as at 30 June 2017 and 31 December 2016 , the Company reported a profit of RON 171.15 million, and of RON 70 million respectively. The accumulated losses incurred so far 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 that seeks to obtain positive financial results thus 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. The main objective for the next years is the extension of the distribution operations in the Black Sea countries, to benefit from a vertical integration with the refinery operations 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 Group capacity to financilay support its ongoing operations.

The company's net assets decreased to less than half the value of the subscribed share capital, 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.

Also, considering the Company's plans for 2017, 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 exercise.

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 is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **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.
  The Company has concluded on the preliminary assessment performed on this new standard, that no significant impact will have on the Company's financial position or performance.

- **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. These Clarifications have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this new standard on the Company's financial position or performance.

- **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 standard has not been yet endorsed by the EU. The Company is in the process of assessing the impact of this amendment on the Company's financial position or performance.

- **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. The Company is in the process of assessing the impact of this amendment on the Company's financial position or performance.

- **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. The Company is in the process of assessing the impact of this amendment on the Company's financial position or performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRIC Interpretation 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. The Company is in the process of assessing the impact of this amendment on the Company's financial position or performance.

- **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 2017 for IFRS 12 Disclosure of Interests in Other Entities and 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. These annual improvements have not yet been endorsed by the EU The Company is in the process of assessing the impact of this amendment on the Company's financial position or performance.

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.

- ***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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- ***Provision for environmental liability***

The Company is involved in refining and petrochemicals. Environmental damage caused by such activities may require the Company to incur restoration costs to comply with the regulations in force. Analysis and estimates are performed by the Company together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which cash outflow may be probable, are recognized as a provision in the Company's financial statements. When the final determination of such obligations differs from the recognized provisions, difference is registered in the Company's 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 planed use of the inventories, the effect of damaged or obsolete inventories, technical losses and the net realizable value in comparison to the cost, based on latest available information and market conditions. As applicable, it is recorded an adjustment for impairment of inventories.

- ***Provision for litigations***

The Company analyses its legal exposure regularly in order to determine whether provisions are required. In determining the amount of the provision, assumptions and estimates are made in relation to the probability of losing thelitigation, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortised cost using the EIR (effective interest rate) method, less impairment. Amortised 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 amortisation 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.

Derecognition

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

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

Or

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

Derecognition

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

c. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised

amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

d. Impairment of financial assets

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

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 reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property plant and equipment

When assets are sold or disposed of, their cost and related accumulated depreciation are removed and any income or loss resulting from their output is included in the profit or loss account.

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.

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 - 60 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

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 centre.

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

i) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Under collective labour 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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

Currency	**30 June 2017**	**31 December 2016**
RON/USD	3.9915	4.3033
RON/EUR	4.5539	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 consolidated 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 and sales refined products and other products at future delivery dates. These contracts expose the Company primarily to commodity risks of changes in fair value of crude oil and related oil products. The Company also uses financial instruments (primarily Options, Swaps and forwards) to hedge its risks associated with the fluctuation of foreign exchange.

For foreign exchange related derivatives, the Company treats the unrealized part as Derivative Financial Asset/Liability in the statement of financial position with corresponding impact on financial charges. 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.

The Company determines gain/loss on a net basis based on the daily open positions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in the profit or loss account of the period.

The Company's policy with respect to hedging forecasted transactions is to designate it as a cash flow hedge. If the cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts previously recognized as equity are recognized in the profit or loss account of the period for which the hedged items have been recognized as profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in period profit or loss in the period related to these transactions.

For the future contracts (both purchase and sales contracts) used to hedge price risk of raw material, the realised and unrealised gains/losses are included in the cost of sales for the respective period (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
Cost				
Opening balance as of January 1, 2016	**45,794,808**	**150,123**	**-**	**45,944,931**
Additions	124,494	-	6,441,382	6,565,876
Disposals	-	-	-	-
Transfers*	49,548	-	-	49,548
Closing balance as of December 31, 2016	**45,968,850**	**150,123**	**6,441,382**	**52,560,355**
Additions	134,693	-	219,403	354,096
Transfers*	-	-	-	-
Closing balance as of June 30, 2017	**46,103,543**	**150,123**	**6,660,785**	**52,914,451**
Accumulated amortization				
Opening balance as of January 1, 2016	**(32,602,137)**	**(12,510)**	**-**	**(32,614,647)**
Charge for the year	(3,170,817)	(50,041)	-	(3,220,858)
Accumulated amortization of disposals	-	-	-	-
Closing balance as of December 31, 2016	**(35,772,954)**	**(62,551)**	**-**	**(35,835,505)**
Charge for the year	(1,440,425)	(25,020)	-	(1,465,446)
Closing balance as of June 30, 2017	**(37,213,379)**	**(87,571)**	**-**	**(37,300,951)**
Net book value				
As of December 31, 2016	**10,195,896**	**87,572**	**6,441,382**	**16,724,850**
As of June 30, 2017	**8,890,164**	**62,552**	**6,660,785**	**15,613,500**

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

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

4. GOODWILL

The goodwill amounting to RON 152,720 represents fractions of the trade funds of the companies 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 and buildings	Plant and equipment	Furniture and others	Construction in progress	Total
Cost or valuation					
As of January 1, 2016	**2,046,085,676**	**3,339,766,162**	**12,154,340**	**65,133,760**	**5,463,139,938**
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)
As of December 31, 2016	**2,059,481,648**	**3,348,858,449**	**12,247,315**	**161,917,727**	**5,582,505,139**
Acquisitions	-	2,071,791	26,066	109,626,911	111,724,768
Transfers from CIP	16,098,618	21,188,525	1,479,902	(38,773,224)	(6,180)
As of June 30, 2017	**2,075,580,266**	**3,372,118,764**	**13,753,283**	**232,771,414**	**5,694,223,727**
Accumulated depreciation & Impairment					
As of January 1, 2016	**(899,607,058)**	**(1,415,332,935)**	**(5,483,894)**	**(3,171,485)**	**(2,323,595,372)**
Charge for the year	(51,969,521)	(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)
As of December 31, 2016	**(951,576,579)**	**(1,603,558,648)**	**(6,144,605)**	**(3,171,485)**	**(2,564,451,316)**
Charge for the year	(26,425,529)	(104,606,389)	(356,129)	-	(131,388,047)
As of June 30, 2017	**(978,002,108)**	**(1,708,165,036)**	**(6,500,733)**	**(3,171,485)**	**(2,695,839,362)**
Net book value as of December 31, 2016	**1,107,905,070**	**1,745,299,801**	**6,102,710**	**158,746,242**	**3,018,053,823**
Net book value as of June 30, 2017	**1,097,578,158**	**1,663,953,728**	**7,252,550**	**229,599,929**	**2,998,384,365**

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- **Impairment**

No depreciation was recorded in the 1st Semester of 2017.

- **Construction in progress**

In the 1st Semester of 2017, the significant contribution to the total acquisitions of assets in progress is represented by the capital maintenance project "Refinery Shutdown 2017" (about RON 61 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 22 million).

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 authorisations 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 referes to the following: Tank rehabilitation amounting to RON 32.6 million, ISCIR authorisations 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**

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 2016 the interest was not capitalised.

- ***Fixed assets pledged***

The company pledged assets net amounting to RON 942,074,949 (2016: RON 984,474,779), as follows:

- guarantees in favour of banks: RON 699,128,214 (2016: RON 720,649,301);
- guarantees in favour of ANAF: RON 242,946,735 (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 favour of the Romanian state (represented by ANAF). On these titles there was set up a rank 2 guarantee in favour of KMG International N.V.

On the guarantees in favour of ANAF, on September 10th, 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 June 30th, 2017 no enforcement process has been made.

6. FINANCIAL ASSETS

	30 June 2017	31 December 2016
Investments in subsidiaries	1,629,020,055	1,629,020,055
Total	**1,629,020,055**	**1,629,020,055**

Investments in subsidiaries

Details regarding subsidiaries at 30 June 2017 and 31 December 2016 are as follows:

	Range of activity	Ownership at 30 June 2017	Ownership at 31 December 2016	Balance as at 30 June 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
Total of equity investments				**1,629,020,055**	**1,629,020,055**

7. INVENTORIES, NET

	June 30, 2017	December 31, 2016
Crude oil and other feedstock materials	357,863,807	451,924,829
Finished products	224,370,308	209,334,771
Work in progress	115,899,569	120,977,712
Spare parts	51,680,276	52,567,514
Other consumables	19,782,746	21,539,603
Merchandises	3,157,360	869,809
Other inventories	3,575,956	3,516,225
Inventories reserve	(52,007,187)	(44,103,284)
Total	**724,322,835**	**816,627,179**

The inventories of finished goods comprise mainly petroleum products.

7. INVENTORIES, NET (continued)

The movement of the provision for inventories in 1st Semester 2017 and in year 2016 is presented below:

	June 30, 2017	December 31, 2016
Reserve at the beginning of the year	**(44,103,284)**	**(63,913,493)**
Accrued provision	(10,436,158)	(22,316,909)
Write off	-	(1,524,350)
Reversal provision inventories reserve	2,532,255	43,651,468
Reserve at the end of the period	**(52,007,187)**	**(44,103,284)**

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

8. TRADE AND OTHER RECEIVABLES, NET

	June 30, 2017	December 31, 2016
Trade receivables	1,089,523,948	841,197,413
Advances to suppliers	11,219,773	21,079,937
Sundry debtors	122,129,447	119,152,205
VAT to be recovered	154,096	120,162
Other receivables	77,239,021	99,367,359
Reserve for bad and doubtful debts	(61,175,646)	(62,290,869)
Total	**1,239,090,639**	**1,018,626,207**

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

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

	June 30, 2017	December 31, 2016
Balance at the beginning of the year	**(62,290,869)**	**(62,021,962)**
Impairment losses recognized on receivables	-	(157,280)
Impairment losses reversed	-	444,879
Translation differences	1,115,222	(556,506)
Balance at the end of the period	**(61,175,646)**	**(62,290,869)**

At 30 June 2017 the analysis of receivables maturity dates is as follows:

			Past due but not impaired				
	Total	**Neither past due not impaired**	**1-30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
30 June 2017	1,033,884,018	681,430,934	26,847,649	16,105,874	400,668	(293,648)	309,392,540
31 December 2016	784,442,261	402,052,072	29,648,971	18,436,822	109,070	35,318	334,160,008

8. TRADE AND OTHER RECEIVABLES (continued)

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

At 30 June 2017, the trade receivables at the initial value of RON 55.6 million (2016 RON 56.75 million) have been considered uncertain and provisioned. The movement of the receivable provision is to be found below:

	Collectively impaired
At January 1, 2016	**(56,486,246)**
Value adjustments for impairment of receivables	(157,280)
Reversed provisions	444,879
Exchange rate difference	(556,506)
At December 31, 2016	**(56,755,153)**
Value adjustments for impairment of receivables	-
Reversed provisions	-
Exchange rate difference	1,115,222
At June 30, 2017	**(55,639,930)**

9. CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016
Cash at bank	7,574,307	44,732,891
Cash on hand	2,293	2,273
Transitory amounts	-	861,470
Other cash equivalents	814,819	294,915
Total	**8,391,419**	**45,891,549**

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

10. OWN CAPITALS

10.1 SHARE CAPITAL

As at 30 June 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 30 June 2017 and 31 December 2016.

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

The total value of the Company's share capital remained unchanged in 1st Semester 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 favour 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 favour of the Romanian State, represented by the Ministry of Finance, by the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

10.3 OTHER RESERVES

"Other reserves" includes the value of the hybrid loan in amount of RON 3,163 million (USD 950 million). From the loan granted by The Rompetrol Group N.V. (actual KMG International N.V.) the amount of USD 950 million was converted into a unsecured hybrid loan, repayable in 51 years. The loan is 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 during the year, a net profit after tax
- The company will be able to distribute dividends as per the Romanian law requirements

The Company has booked during 1st Semester of 2017 unrealised gains related to derivative financial instruments in the "Other reserves" account in amount of RON 1,267,646.

11.COMMERCIAL LIABILITIES AND OTHER LIABILITIES

	June 30, 2017	**December 31, 2016**
Trade payables	2,925,246,530	3,155,920,002
Advances from customers	78,081,859	85,097,092
VAT payable	122,173,284	117,191,493
Special found tax for oil products	27,560,632	27,560,632
Taxes payable	389	15,570
Employees and social obligations	7,790,909	8,129,681
Other liabilities	535,191,063	356,448,532
Total	**3,696,044,666**	**3,750,363,002**

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

The cash pooling debt amounts to RON 529.21 million (2016: RON 333.63 million) and is recognised in "other debts".

12. SHORT-TERM LOANS

Short-term loan from related parties:

	30 June 2017	31 December 2016
KMG International N.V. Short-term credit facility for working capital needs, amounting to a maximum of USD 250 million, USD 50 million due on December 31, 2017 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 June 30, 2016 is in amount of USD 83.16 million.	665,931,945	843,734,704
Rompetrol Well Services Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - July 10, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	13,000,000	13,000,000
Rompetrol Well Services Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - July 14, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	7,000,000	7,000,000
Rompetrol Well Services Short-term facility for working capital needs in amount of up to RON 3.1 million granted to Rompetrol Rafinare SA, maturity date - July 3, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	3,100,000	3,100,000
Rompetrol Well Services Short-term facility for working capital needs in amount of up to RON 11.2 million granted to Rompetrol Rafinare SA, maturity date - August 28, 2017. The loan is secured with a promissory note covering the debt. The facility has been fully used.	11,200,000	11,200,000
Midia Marine Terminal Short-term facility for working capital needs in amount of USD 7 million, maturity date December 31, 2017. The facility has been fully used.	27,940,500	30,123,100
Rompetrol Financial Group SRL Short-term facility for working capital needs in amount of USD 29.215 million, maturity date December 31, 2017. The facility has been fully used.	115,000,000	115,000,000
Interest due	16,513,872	42,812,627
	859,686,316	**1,065,970,431**

12. SHORT-TERM LOANS (continued)

Short-term bank loans

	30 June 2017	31 December 2016
Bancpost Rompetrol Rafinare S.A.: Revolving credit ceiling on short term credit facility of up to EUR 30 million, for working capital purposes, for issue of letters of credit and letters of guarantee. Maturity date is July 31, 2017; guarantee on the credit balances of all current accounts; Corporate unconditional and irrevocable guarantee issued by KMG International; mortgage on the delayed coking unit; pledge on machinery and equipment; mortgage on real estate land area of 30,380.96 m2; assignment of rights from insurance compensation.	105,901,973	88,838,025
Bancpost Short-term credit facility type cash and non-cash amounting to EUR 27,961,890 for the current activity, issuing letters of credit and letters of guarantee, due on 31 July 2017; 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.	99,788,461	10
Interest due	362,535	345,226
	206,052,968	**89,183,260**
Syndicated loan – through Unicredit Bank as payer agent Up to USD 360 million loan facility for repayment of existing loans, current activity, issuing letters of credit and letters of guarantee; concluded by group companies (Rompetrol Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 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, Ethylenne, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% ofthe debts assigned to notify the clients.	**324,226,47**	**-**
TOTAL	**530,279,44**	**89,183,260**

All the financial covenants applicable were complied with as of June 30, 2017.

13. LONG-TERM LOANS

	30 June 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 (Rompetrol Rafinare, Rompetrol Downstream SRL, KazMunayGas Trading AG, KMG Rompetrol SRL - as borrowers and guarantors and -in KMG International NV as guarantor) with the following banks (UniCredit Bank SA, Raiffeisen Bank SA, BCR SA, ING Bank NV - Bucharest Branch) and Unicredit Bank AG, London Branch as agent. The facility consist in an up to USD 240 million principal granted for a 3-year period and an auxiliary component representing overdraft loans of up to USD 120 million for a 1 year period. For the main component the maturity is on April 23, 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, Ethylenne, PP, LDPE, HDPE, Bitumen, Fuel Oil, Jet FOB Med, Naphtha, n-hexane, ULSD FOB Med, White Spirit); d) receivables from eligible commercial agreements - for at least 80% ofthe debts assigned to notify the clients.	**-**	**281,763,783**

At the end of Semester I 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 30.06.2017 the maturity term (April 23, 2018) is less than 1 year .

14. PROVISIONS

	30 June 2017	31 December 2016
Non - current provision	302,311,412	302,311,412
Total	**302,311,412**	**302,311,412**

The environmental provision for the Vega Refinery in amount of RON 272 million represents obligations related to 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 220 million has been provided by the Company.

In 2016 the value for the environmental provision has been updated based on new technical assumptions regarding the total value of the greening costs, the discount rate and the impact resulting from the exchange rate differences, the movement of the year (increase) amounting to RON 52.4 million. Currently is being conducted prequalification stage of suppliers and considering the auction process and negotiating the final contract is expected to begin work on the ground in the last quarter of 2017 / latest first quarter of 2018. After the remediation works will be contracted, a better estimation of the costs will be available and this will reflect in 2017 financial statements.

14. PROVISIONS (continued)

Retirement obligations provision - Under the collective labour agreements that certain Group's entities have in force provided that, 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 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

	January - June 2017	January - June 2016
Gross revenues from the sale of finished oil products	6,248,530,571	5,947,713,847
Revenues from other merchandise sales	7,073,624	3,311,207
Revenues from utilities sold	4,080,025	4,141,170
Revenues from the sale other products	761,882	271,635
Revenues from rents and other services	7,084,350	7,101,488
Gross Revenues	**6,267,530,452**	**5,962,539,347**
Less sales taxes	(1,538,513,709)	(1,829,393,848)
Total	**4,729,016,743**	**4,133,145,499**

16. COST OF SALES

	January - June 2017	January - June 2016
Crude oil and other raw materials	4,202,246,667	3,516,844,136
Consumables and other materials	28,679,184	30,301,013
Utilities	162,530,968	169,473,810
Staff costs	38,962,402	41,591,374
Transportation	36,899	46,540
Maintenance	41,355,352	46,628,883
Insurance	2,799,879	3,444,816
Environmental expenses	1,874,622	2,172,350
Other	21,509,353	27,880,162
Cash production cost	**4,499,995,326**	**3,838,383,084**
Depreciation and amortization	103,107,202	126,147,610
Production costs	**4,603,102,528**	**3,964,530,694**
Less: Change in inventories	(16,751,315)	(55,280,317)
Less: Own production of property, plant & equipment	(7,057,692)	(545,401)
	-	-
	-	-
Cost of petroleum products trading	7,972,312	3,333,505
Cost of petrochemicals trading	3,120,480	2,991,514
Realised (gains)/losses on derivatives	(1,043,595)	(5,602,291)
Total	**4,589,342,718**	**3,909,427,704**

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

	January - June 2017	January - June 2016
Staff costs	14,856,617	9,848,176
Utilities	4,629,615	3,839,601
Transportation	20,566,228	19,152,339
Professional and consulting fees	26,992,256	26,958,677
Consumables	1,356,558	788,674
Marketing	308,211	121,428
Taxes	1,721,647	2,780,213
Communications	33,692	31,993
Insurance	1,276,704	1,003,746
IT related expenditures	3,036,830	3,610,424
Environmental expenses	5,445,358	4,348,306
Maintenance	8,659,554	5,610,900
Fees and penalties	4,175,881	8,039,647
Other expenses	12,650,609	8,422,679
Costs before depreciation	**105,709,760**	**94,556,803**
Depreciation and amortisation	29,746,292	12,156,845
Total	**135,456,052**	**106,713,648**

18. OTHER OPERATING (INCOME) / EXPENSES, NET

	January - June 2017	January - June 2016
Provision for receivables, net	-	(61,717)
Provision for inventories and write-off, net	7,903,903	(16,621,208)
Other, net	17,171,013	(3,082,196)
Total	**25,074,916**	**(19,765,121)**

19. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	January - June 2017	January - June 2016
Finance cost		
Interest expense	7,237,798	6,268,288
Interest expense shareholders	43,062,724	29,077,706
Commission and other bank charges	33,161,041	25,136,779
	83,461,563	**60,482,773**
Finance income		
Interest income	(38,070,422)	(7,107,575)
Other financial income	(20,566)	(2,167,248)
	(38,090,988)	**(9,274,823)**
Finance income/(cost) net	**45,370,575**	**51,207,950**
	-	-
Unrealized net foreign exchange losses/(gains)	(248,007,522)	(26,805,623)
Realized net foreign exchange losses/(gains)	10,629,149	(30,499,703)
Foreign exchange (gain)/loss, net	**(237,378,373)**	**(57,305,326)**
Total	**(192,007,798)**	**(6,097,376)**

20. INCOME TAX

The income tax rate was 16% in 2017 and 2016.

DEFERRED TAX

	Balance at January 1, 2017	Movement during the year	Balance at June 30, 2017
Temporary differences			
Asset/Liability			
Plant and equipment	381,984,741	-	381,984,741
Provisions	(272,355,903)	-	(272,355,903)
Fiscal loss	(1,805,713,296)	-	(1,805,713,296)
Total temporary differences (Asset)/Liability	**(1,696,084,458)**	**-**	**(1,696,084,458)**
Plant and equipment	61,117,558	-	61,117,558
Provisions	(43,576,631)	-	(43,576,631)
Fiscal loss	(288,914,442)	-	(288,914,442)
Deffered tax (assets)/liability recognised	**(271,373,514)**	**-**	**(271,373,514)**

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.

21. OPERATING SEGMENT INFORMATION

a) Business segments

30 June 2017 Profit and loss statement

	Refining	Petrochemicals	Total
Net turnover	4,393,348,912	335,667,831	**4,729,016,743**
Cost of sales	(4,278,035,563)	(311,307,155)	**(4,589,342,718)**
Gross profit	**115,313,349**	**24,360,676**	**139,674,025**
Selling, general and administrative expenses	(116,210,993)	(19,245,057)	**(135,456,052)**
Other operating revenues / expenses, net	(25,074,916)	-	**(25,074,916)**
Operating profit/ (loss)	**(25,972,560)**	**5,115,620**	**(20,856,943)**
Financial expenses	(83,461,563)	-	**(83,461,563)**
Financial revenues	38,090,988	-	**38,090,988**
Net foreign exchange gains / (losses)	237,378,373	-	**237,378,373**
Profit/(loss) before income tax	**166,035,238**	**5,115,620**	**171,150,855**
Deferred tax	-	-	**-**
Net Profit / (Loss)	**166,035,238**	**5,115,620**	**171,150,855**
out of which Depreciation and amortization	**107,246,493**	**25,607,001**	**132,853,494**

21. OPERATING SEGMENT INFORMATION (continued)

30 June 2016 Profit and loss statement

	Refinery	Petrochemicals	Total
Net turnover	3,766,560,338	366,585,161	**4,133,145,499**
Cost of sales	(3,579,845,362)	(329,582,342)	**(3,909,427,704)**
Gross profit	**186,714,976**	**37,002,819**	**223,717,795**
Selling, general and administrative expenses	(92,397,783)	(14,315,865)	**(106,713,648)**
Other operating revenues / expenses, net	19,765,121	-	**19,765,121**
Operating profit/(loss)	**114,082,314**	**22,686,954**	**136,769,268**
Financial expenses	(60,482,772)	-	**(60,482,772)**
Financial revenues	9,274,823	-	**9,274,823**
Net foreign exchange gains / (losses)	57,305,326	-	**57,305,326**
Profit/(loss) before income tax	**120,179,691**	**22,686,954**	**142,866,645**
Deferred tax	-	-	**-**
Net Profit / (Loss)	**120,179,691**	**22,686,954**	**142,866,645**
out of which Depreciation and amortization	**111,114,863**	**27,189,592**	**138,304,455**

a) 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:

	1st Semester 2017	1st Semester 2016
Romania	2,538,620,631	1,922,460,154
Europe	2,072,598,125	2,174,950,155
Asia	86,929,313	24,803,104
Africa	-	-
America	30,868,674	10,932,086
Total	**4,729,016,743**	**4,133,145,499**

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:

Name of the affiliated entity	Nature of the relation
KMG International N.V.	Majority shareholder
Oilfield Exploration Business Solutions S.A.	Company held by KMG International N.V
Rominserv S.R.L	Company held by KMG International N.V
KazMunayGas Trading AG	Company held by KMG International N.V
Rompetrol Well Services S.A.	Company held by KMG International N.V
Palplast S.A.	Company held by KMG International N.V
Rompetrol Bulgaria JSC	Company held by KMG International N.V
Intreprinderea Mixta Rompetrol Moldova SA	Company held by KMG International N.V
Rompetrol Georgia LTD	Company held by KMG International N.V
Midia Marine Terminal S.R.L.	Company held by KMG International N.V
Rompetrol Financial Group S.R.L.	Company held by KMG International N.V
Dyneff SAS	A company of Rompetrol France group, where KMG International N.V. owns 49%
KMG Rompetrol SRL	Company held by KMG International N.V
Byron Shipping Ltd	Company held by KMG International N.V
Byron Shipping S.R.L.	Company held by KMG International N.V
Rompetrol Albania Wholesale Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Ukraine LTD	Company held by KMG International N.V (KMG International N.V. owns 50%)
Rominserv Valves Iaifo SRL	Company held by KMG International N.V
KAZMUNAYGAS – Engineering LLP (former Rominserv Kazakhstan LLC)	Company held by KMG International N.V
Uzina Termoelectrica Midia S.A.	Company held by KMG International N.V (KMG International group holds: 43.42%)
Global Security System S.A.	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Downstream S.R.L.	Company affiliated to the Company
Rompetrol Petrochemicals S.R.L.	Company affiliated to the Company
Rom Oil S.A.	Company affiliated to the Company
Rompetrol Logistics S.R.L.	Company affiliated to the Company
Rompetrol Quality Control S.R.L.	Company affiliated to the Company
Rompetrol Gas S.R.L.	Company held by KMG International N.V
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%
Rompetrol 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%)
Rompetrol Albania Downstream Sh.A.	Company held by KMG International N.V (in liquidation)
Rompetrol Albania Sh.A.	Company held by KMG International N.V (in

	liquidation)
Rompetrol Distribution Albania Sh.A	Company held by KMG International N.V (in liquidation)
TRG Petrol Ticaret AS	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 51%)
Rompetrol Energy S.A	Company held by KMG International N.V (KMG International owns: 99%)
KazMunayGas Engineering B.V.	Company held by KMG International N.V
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
Rompetrol Drilling	Company held by KMG International N.V
Benon Rompetrol LLC	Company held by KMG International N.V (indirect ownership by KMG International N.V.: 40%)
The Romanian State and the Romanian Authorities	Significant shareholder
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 30 June 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 analysing the financial position of the related party and the market in which it is carrying on its activity.

At 30 June 2017 and 31 December 2016, Rompetrol Rafinare had the following balances with the related parties:

	Receivables and other assets	
	June 30, 2017	December 31, 2016
KazMunayGas Trading AG	424,716,704	589,077,055
Rompetrol Downstream S.R.L	407,740,438	9,332,185
Rompetrol Petrochemicals S.R.L.	1,633	4,872
KMG International N.V.	99,389,710	92,923,010
Rompetrol Gas SRL	6,586,287	2,953,984
Rompetrol Moldova ICS	22,673,503	-
Rompetrol Bulgaria JSC	3,428,847	5,914,904
Rominserv S.R.L.	14,806,383	20,549,377
Rompetrol Quality Control S.R.L.	126,248	141,275
Rompetrol Logistics S.R.L	41,881	34,600
Midia Marine Terminal S.R.L.	1,168,335	1,381,413
Uzina Termoelectrica Midia S.A.	4,448,937	8,319,514
KMG Rompetrol SRL	353,539	3,270,515
Global Security Systems S.A.	607,571	606,680
Rominserv Kazakhstan LLC	671,239	723,673
Palplast S.A.	5,340,002	5,340,002
Byron Shipping Ltd.	3,359	952
Rompetrol Ukraina	15,114	16,295
Oilfield Exploration Business Solutions S.A.	1,594,537	6,195,812
Rompetrol Financial Group SRL	10,191	10,309
KMG Rompetrol Services Center SRL	53,535	317,124
TRG Petrol Ticaret Anonim Sirketi	1,338,544	-
Total	**995,116,537**	**747,113,551**

22. RELATED PARTIES (continued)

	Payables, loans and other liabilities	
	June 30, 2017	December 31, 2016
KazMunayGas Trading AG	2,212,313,878	2,467,408,542
Rompetrol Downstream S.R.L	34,543,736	58,814,262
Rompetrol Petrochemicals S.R.L.	293,380,395	293,605,364
KMG International N.V.- loans(note12)	665,931,945	843,734,704
KMG International N.V.-interest	2,232,037	30,608,711
KMG International N.V.-trade debts	4,950,187	3,271,292
Rompetrol Gas SRL	2,543,456	3,080,054
Rompetrol Moldova ICS	29,996,417	3,522,833
Rominserv S.R.L.	117,789,901	105,032,421
Rompetrol Quality Control S.R.L.	17,602,392	16,455,923
Rompetrol Logistics S.R.L	807,450	715,201
Midia Marine Terminal S.R.L.- loans(note12)	27,940,500	30,123,100
Midia Marine Terminal S.R.L.-interest	4,326,564	3,999,220
Midia Marine Terminal S.R.L.-trade debts	129,660,278	118,619,878
Rompetrol Well Services S.A. - loans (note 12)	34,300,000	34,300,000
Rompetrol Well Services S.A.-interest	110,332	97,174
Uzina Termoelectrica Midia S.A.	9,158,658	12,571,780
KMG Rompetrol SRL- debt cash pooling	529,205,442	333,637,122
KMG Rompetrol SRL-interest cash pooling	955,275	713,459
KMG Rompetrol SRL-trade debts	30,755,791	4,564,787
Global Security Systems S.A.	967,092	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	9,844,938	8,107,522
KMG Rompetrol Services Center SRL	1,592,864	1,540,163
Rompetrol Bulgaria JSC	451,530	-
Total	**4,276,361,124**	**4,490,497,865**

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 2017.

22. RELATED PARTIES (continued)

In 1st Semester 2017 and 1st Semester 2016, Rompetrol Rafinare had the following transactions with the related parties:

Name of related party	Nature of transaction , sales / purchases	Sales		Purchases	
		1st Semester 2017	1st Semester 2016	1st Semester 2017	1st Semester 2016
KazMunayGas Trading AG	Raw materials / Petroleum products	1,377,375,403	1,563,314,462	3,840,751,816	3,254,748,803
Rompetrol Downstream S.R.L	Petroleum products, rent, utilities and other	1,775,110,705	1,328,998,593	1,257,165	1,589,464
Rompetrol Petrochemicals S.R.L.	Rent, utilities and other	8,169	8,090	-	-
KMG International N.V.	Loan interest, management services	-	-	16,757,645	17,020,169
Rompetrol Gas SRL	Platform operation, propane / Petroleum products, rent, other	150,873,327	101,525,754	9,418	49,482
Rompetrol Moldova ICS	Sales intermediary services	327,203,689	185,820,212	-	-
Rompetrol Bulgaria JSC	Sales intermediary services	34,885,944	49,638,526	462,673	-
Rominserv S.R.L.	Acquisition and maintenance of fixed assets	1,303,640	1,268,900	154,105,170	69,649,146
Rompetrol Quality Control S.R.L.	Laboratory analysis/Rent, utilities, other services, dividends	692,062	2,826,333	12,593,978	12,169,993
Rompetrol Logistics S.R.L	Transport, rent/Rent, utilities	6,130	5,807	77,597	54,775
Midia Marine Terminal S.R.L.	Handling services/ Rent,utilities, reinvoicing, loan interest ,others	721,253	653,474	35,175,190	41,117,103
Rompetrol Well Services S.A.	Loan interest	-	-	665,478	575,240
Uzina Termoelectrica Midia S.A.	Acquistion of utilities	33,619,832	27,954,024	54,715,596	45,103,987
KMG Rompetrol S.R.L.	Loan interest, management services	18,312,146	7,285,799	50,015,866	42,950,029
Global Security Systems S.A.	Security and protection services	750	723	4,834,958	5,265,476
Byron Shipping S.R.L.	Demurrage /Rent, reinvoices of other services	18,836	19,179	2,828	2,828
Rompetrol Financial Group SRL	Loan interest	-	-	2,229,435	2,165,349
KMG Rompetrol Services Center SRL	Shared services	269,318	-	7,896,474	-
TRG Petrol Ticaret Anonim Sirketi	Petroleum products	32,975,712	-	-	-
		3,753,376,916	**3,269,319,876**	**4,181,551,288**	**3,492,461,844**

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 reorganisation 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.

23. EARNINGS PER SHARE

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

	1st Semester 2017	1st Semester 2016
Net profit (+), loss (-)	171,150,855	142,866,645
Average number of shares	44,109,205,726	44,109,205,726
Result per share - base (bani/share)	0.39	0.32

24. CONTINGENT LIABILITIES

a) Related to the Parent's oil products technological lending practice to other refineries by the Company, D.G.F.P. Constanta claimed that the Company had unrecorded income, excise, VAT and related penalties totalling RON 47,7 million (USD 11,1 million) to be paid by the Company based on an inspection carried out in 2003. These claims (the legal effects) were suspended by the local court for admission. Subsequently, a second suspension has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.) 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 Note 25). The management is confident that the Company is able to defend itself and the likelihood of a negative outcome is being 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 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) ANAF - DGAMC started in October 2016 the general fiscal audit referring to the fiscal period 2011-2015, taxes covered by this tax audit are: income tax, VAT, WHT and excises. As of date of Financials, the tax audits are in progress, there are no effective information regarding any potential fiscal findings or tax adjustments.

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 current and former shareholders directors, managers and external censors of S.C. 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 Parent;
b) unlawful statement of excises and other debts to the state budget;

25. LEGAL MATTERS (continued)

c) incorrect keeping of accounting registries regarding the technological products operations undertaken at the oil terminal owned by Oil Terminal, charges which concern events that took place during April 2001 – October 2002;
d) adoption of GEO no. 118/2003.

Considering the above mentioned charges a freezing orders 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.

The companies already submitted the challenges against the Orders within 3 days (namely on 12 and 13 of May 2016).

After two hearings in front of the Constanta Court, the case was assigned to be settled by the Supreme Court, who rejected in full the challenging submitted by Group's subsidiaries.

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

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

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

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

Finally, on May 10 and June 28, 2017 the Companies submitted their Statement of claims against the DIICOT allegations for the following topics: Libya receivables, RRC 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.

On July 22, 2016 NC KMG and KMGI submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty.

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. Based on our knowledge the Romanian authorities received this Notice on July 25, 2016. According to the above mentioned treaties starting with July 25, 2016 commenced a 3 (three) to 6 (six) month period within the KMG companies and Romanian State may reach a settlement. Romanian authorities through the Ministry of Finance issued a response in October 2016 citing that all steps took by the Romanian state, through its public authorities, were conducted in compliance with the agreements put forward by KMG and KMGI in the notification of amicable settlement of the dispute.

After the expiration of this period, should a settlement between KMG and Romania fail to be reached, the case could be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank, headquartered in Washington, D.C or to the Arbitration Institute of the Stockholm Chamber of Commerce, in line with the provisions of the treaties and with KMG companies' envisaged reliefs and measures to be obtained.

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, 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 subject to a prior administrative appeal.

The main arguments put forward by Rompetrol Rafinare for its administrative appeal were: it had used and benefitted from the management and advertising service referred to; it has related justifying documents that were not taken into consideration by the tax authorities; and the Tax authorities did not consider the definition provided by the Fiscal Code and its Application Norms, as well as, applicable, Double Tax Treaties and Commentaries to the OECD model conventions as regards definition of royalties versus services.

Although Rompetrol Rafinare considers that it has met all technical requirements and it is challenging all the items included in the report issued by the National Agency for Tax Administration, there is a chance that Rompetrol Rafinare may not recover the amount in whole or part, based on the high ambiguity in respect of the legislation and the court practice in a similar cases in Romania. Therefore a provision has been recognized for an overall amount of USD 15 million, out of which USD 11 million was expensed during 2012.

The main court case started by Rompetrol Rafinare SA against the assessment has been settled on 27th of October 2014 by Constanta Court of Apeal which partially annulled both Decision no. 33 and the Assessment Decision for payment of RON 48 million. (equivalent USD 14.1 million).

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

This Decision is not final, both Rompetrol Rafinare and National Agency for Tax Administration appealed against it in front of the Supreme Court of Justice. The report of the Supreme Court of Justice has been communicated to Rompetrol Rafinare SA, according to which both appeals have been admitted in principle. A second term is established on 30 March 2017, in order to check the appeals under the other aspects. At this term, the Supreme Court of Justice established the first hearing term on September 29th, 2017 (it is the first term for which the parties will receive a subpoena).

25. LEGAL MATTERS (continued)

<u>Litigation regarding CO2 emission allowances.</u>

On February 28, 2011 Rompetrol Rafinare S.A. won a 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. 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. The market value for a CO2 emission certificate was EUR 5.4 per certificate as of December 2016.

Considering that the Ministry of Environment and the Romanian Government did not fulfill with the Court decision according to the deadline, Rompetrol Rafinare SA started a court claim against them, having as object damages in amount of EUR 36 million.

On April 24, 2014 the court rejected the Rompetrol' s claim on a reason that "is lack of object". Rompetrol appealed the Decision in front of the Supreme Court. The first hearing is set by the Supreme Court for June 3rd 2016. Last hearing was on 21.10.2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment, and send the cause to the same first instance (Constanta Court of Appeal) for retrial.

Additionally Rompetrol Rafinare launched a new legal enforcement procedure in front of the Constanta Court of Appeal, based on some new and much clearer provisions of law.

On July 6, 2015 Constanta Court of Appeal admitted partially the claim and fined the representative of the Government and Ministry of Environment for non-performance of the enforcement of the decision by which the Company received a number of 2,577,940 CO2 emission certificates. The decision is subject to appeal.

As a consequence, on July 28th 2015 the Government Decision no. 611/2015 was issued, providing the modification of the National Plan initially approved by Government Decision no. 60/2008 and increasing the allocation of the Company with the amount of 2,577,940 CO2 emission certificates; this decision is due to be fully and effectively implemented in the following 120 days, subject to an approval from European Commission, from the perspective of complying with state aid regulations. The Government Decision has still not been implemented.

On October 27 2015, in order to secure all its rights and the full enforcement of the above mentioned court and government decisions, Rompetrol Rafinare filed a last court enforcement procedure, having as object to oblige the defendants to pay the counter value of the 2.577.940 CO2 emission certificates (i.e. 40 million Euro in total) in case they will fail to implement in due time the initial and final court decision and the Government Decision no. 611/2015. On February 3rd 2016, the Constanta Court of Appeal decided to postpone the procedure until the Supreme Court will pronounce a decision in another related case (Case file no. 917/36/2013), regarding the appeal of Rompetrol Rafinare against court decision to reject our claims as lack of object, with last hearing term for October 21st 2016, when the court admitted both appeals formulated by Rompetrol Rafinare and the Ministry of Environment, and sent the cause to the same first instance (Constanta Court of Appeal) for retrial. First hearing for retrial was set on September 7, 2017.

Rompetrol Rafinare requested the resetting the cause of pending, and the first hearing took place in the Constanta Court of Appeal on April 6th 2016. At this hearing term, Rompetrol Rafinare request to reset the cause of pending was dismissed. Following the finalization of the case file no. 917/36/2013 by a decision dated October 21st, 2016, a new reopening request was submitted in Case file no. 712/36/2015, which was examined on January 11, 2017, when Rompetrol Rafinare request to reset the cause of pending was also dismissed.

25. LEGAL MATTERS (continued)

Litigation between Rompetrol Rafinare and Navodari City Hall

On November 19th, 2015, it was finalized the audit of the local taxes, done by Navodari City Hall, for the period of 2012-2014. The only non-compliant finding refers to revaluation of buildings made by the company on 31.12.2009 and 31.12.2011, namely that because the revaluation was not made for all fixed assets accounted for in the account 212 "Construction", in their view it was made without observing the accounting regulation 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 penalties related 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).

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. This solution is based on Navodari Local Council Decision no.435/December 21st, 2015, under which Rompetrol Rafinare has obtain the annulment of 73% of penalities.

Rompetrol Rafinare submitted in court the challenge against this decision, and also another action for partial annulment of Navodari Local Decision no.435/2015 at Constanta Court of Appeal. On March 16th, 2017 Constanta Court of Appeal dismissed the challenge submitted by Rompetrol Rafinare against the decision issued by Navodari City Hall. The solution will be appealed.

The second action, submitted by Rompetrol Rafinare for partial annulment of Navodari Local Council Decision no. 435/December 21st 2015 was admitted by Constanta Tribunal. This solution has been appealed by Navodari Local Concil on Constanta Court of Appeal, where the first hearing term is set on January, 16th, 2017, when the appeal was rejected.

Rompetrol Rafinare also filed the request for suspension the enforceable effects of the imposing decision, pursuant to the Law 554/22004 and Government Ordinance 92/2003, file no.788/36/2015. The statement of defense was submitted by Navodari City Hall and the first hearing term was established for February 22nd 2016. The court granted Rompetrol Rafinare claim and suspended the effects and the enforcement of the Tax Inspection Report and Tax Decisions issued by Navodari City on November 19th 2015. The solution was appealed by Navodari City Hall. The case is currently pending court investigation proceedings with the Supreme Court of Justice. The first hearing term before the Supreme Court was not yet been scheduled.

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 safe access and operation of ships, 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 1.87 million - dredging expenditures; USD 3.3 million - commercial loss; the complaint is in course of analysis at the Competition Council. By means of the lodged complaint, the Competition Council was asked to acknowledge the violation by Administraţia 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, inclusively in terms of cost incurrence, the obligations resting upon it as administrator of port areas and of supplier of goods and services specific to the exploitation of national maritime areas, in particular with respect to Midia Port.

25. LEGAL MATTERS (continued)

b) Court claim against the Constanta Port Administration for Rompetrol Rafinare damages related to lower port drafts during January - May 2015 (USD 0.85 mil) and for restitution of dredging expenses (1.7 mil USD). The total amount in RON is today RON 10 million (USD 2.6 million). The case is pending on Constanta Tribunal, with next hearing for May 19th, 2017. At this date, 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: a) The equivalent in lei, at the exchange rate euro/leu , fixed by the National Bank of Romania, on the day of payment, the amount of EUR 1,570,000 representing dredging expenditures paid by Rompetrol Rafinare SA , during the period 30 April 2015 - 11 May 2015 ; b) The amount of 78.67 thousand lei - legal costs (of which 73.17 thousand lei - judicial stamp duties and 5,500 lei - the fees of experts and dismissals).

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, resulting in a fire, which was extinguished by Refinery' staff and firemen from private and public services. Following the event, two persons, 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, injury and the decease of employees. In respect of the work accident, the Prosecutor's Office of the Constanta Court of Appeal office, was notified ex officio and opened 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 of the two companies were put on trial for: the non-observance of the legal labour health and safety measures, bodily harm by negligence, manslaughter and accidental pollution. At the same time Rompetrol Rafinare S.A. has quality as civilly liable party. As a result of the completion of the initial phase of the files, of preliminary chamber procedure, the court decided on 01.03.2017: have been accepted in part the applications and the exceptions made by the defendants, it has been found the relative nullity of the indictment no. 586/P/2016 07.12.2016 from the Prosecutor's Office under the Constanta Court of Appeal, it has been found the irregularity that attracts the impossibility to the establishment of the object or judgment on the indictment no. 586/P/2016 of 7.12.2016, prosecutor must communicate to the judge of preliminary room whether to maintain the provision referred to in the judgment or request the refund case, within 5 days from the date of the communication of the solution. By the final conclusion of Preliminary Chamber procedure, no. 328 / 03.21.207 communicated to Rompetrol Rafinare on March 27, 2017 the court ordering, 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 / 29.11.2016, irregularity of the indictment 586 / P / 12.7.2016 prosecutor failure to respond within procedural terms. The solution can be appealed within three days from the communication of the final solution of the preliminary chamber. 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. On the other hand, it was admitted the request filed by RIS 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.

Also on May 25, 2017 Rompetrol Rafinare and RIS received a reply to its challenge submitted against the Constanta Labor Inspectorate Reports by which the Labour authority maintains the same considerations challenged by the companies. Against this reply the companies will fill in an application to the court.

26. COMMITMENTS

Environmental commitments

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

As of June 30, 2017 and 31 December 2016 Rompetrol Rafinare SA has no specific environmental commitments to conform to the Integrated Environmental Authorization, except for Vega obligations, which have been provisioned.

At the end of March 2017 Rompetrol Rafinare SA has achieved the annual compliance with greenhouse gas (CO_2) emission regulations by returning a number of CO_2 certificates equivalent to the emission of 2016.

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 parent, comprising issued capital, reserves and retained earnings as disclosed in the "Consolidated Statement of Changes in the Shareholders' Equity".

B) GEARING RATIO

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

	30 June 2017	31 December 2016
Borrowings maturing in over one year	-	281,763,783
Own capitals	1,499,319,490	1,326,900,989
Gearing ratio	0.00%	21.23%

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

C) FINANCIAL INSTRUMENTS

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

	30 June 2017	31 December 2016
Financial assets		
Trade receivables and other receivables	1,150,477,749	898,058,749
Derivatives	1,292,281	22,980
Cash and bank accounts	8,391,419	45,891,549
TOTAL FINANCIAL ASSETS	**1,160,161,449**	**943,973,278**
Financial liabilities	**30 June 2017**	**31 December 2016**
Short term borrowings from shareholders	859,686,316	1,065,970,431
Derivatives	-	-
Commercial liabilities and other liabilities	3,464,843,799	3,516,647,537
Short term loans	530,279,444	89,183,260
Long term borrowings from banks	-	281,763,783
TOTAL FINANCIAL LIABILITIES	**4,854,809,559**	**4,953,565,011**

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.

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

- The Company enters into derivative financial instruments with various counterparties. As at 30 June 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.

	30 June 2017	Level 1	Level 2	Level 3
Financial assets				
Trade receivables and other receivables	1,150,477,749	1,150,477,749	-	-
Derivatives	1,292,281	-	1,292,281	-
Cash and bank accounts	8,391,419	8,391,419	-	-
TOTAL FINANCIAL ASSETS	**1,160,161,449**	**1,158,869,168**	**1,292,281**	**-**
Financial liabilities				
Short term borrowings from shareholders	859,686,316	859,686,316	-	-
Commercial liabilities and other liabilities	3,464,843,799	3,464,843,799	-	-
Short term loans	530,279,444	530,279,444	-	-
TOTAL FINANCIAL LIABILITIES	**4,854,809,559**	**4,854,809,559**	**-**	**-**

	31 December 2016	Level 1	Level 2	Level 3
Financial assets				
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	-	-
TOTAL FINANCIAL ASSETS	**943,973,278**	**943,950,298**	**22,980**	**-**
Financial liabilities				
Short term borrowings from shareholders	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	-	-
TOTAL FINANCIAL LIABILITIES	**4,953,565,011**	**4,953,565,011**	**-**	**-**

At 30 June 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.

27. FINANCIAL AND RISK MANAGEMENT INSTRUMENTS (continued)

D) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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 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 aprecitation to the detriment of local currency, while in respect of foreign currency recivables, 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.

	USD		**EUR**	
	30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
RON				
5%	(150,299,363)	(158,280,065)	1,926,097	(78,907)
-5%	150,299,363	158,280,065	(1,926,097)	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 30 June 2017 would increase / decrease by RON 14.8 million (2016: increase / decrese by RON 15.9 million).

I) OIL PRODUCTS AND RAW MATERIAL PRICE RISK

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

Its operating activities of the Company require ongoing purchase of crude oil to be used in its production as well as supplies 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.

Trading 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.

J) CREDIT RISK

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

Trade receivables

Outstanding customer receivables are regularly monitored. The requirement for impairment is analysed 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 August 14, 2017.

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was prolonged until September 10, 2017.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was prolonged until September 3, 2017.

Facilities granted to Rompetrol Rafinare S.A. by Bancpost in amount of EUR 30 million, respectively EUR 27.96 million have been extended until July 31, 2018.

On July 17th, 2017, Rompetrol Rafinare SA and the affiliates thereof KMG International NV and Oilfield Exploration Business Solutions SA received an ordinance issued by DIICOT which mandates the continuation of the criminal investigation of deeds attributed to the 1998-2003 period and of the grounds for the company's civil liability for part thereof.

As before, the company will further cooperate with the authorities in a transparent way with the aim that the investigations complete in in due course and in full observance of the company's rights.

This new procedural deed does not affect the daily actitiy of Rompetrol refineries the operations of which are being carried out in the normal course.

However, the company continues to work with its local and international legal advisors to use all legal means to protect its investments, activities and current operations as well as its reputation.

The company will provide further information once there will be clarified the apects related to the company's liability for the deeds currently pending investigation.

The national oil and gas company of Kazakhstan - KazMunayGas became in August 2007 the major shareholder, and in 2009 the sole shareholder of The Rompetrol Group (currently named KMG International NV) that the company is a part of.

rompetrol KazMunayGas Group Member

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AFFIDAVIT

The undersigned, Cătălin Dumitru, acting as Chairman of the Board of Directors, Yedil Utekov, acting as Chief Executive Officer, and Vasile-Gabriel Manole, acting as Chief Financial Officer of Rompetrol Rafinare SA, in consideration of art. 113, letter D alin (1) lit.c of the National Securities Commission Regulation no. 1/2006 regarding issuers and securities related operations,

Hereby declare that, as far as we are aware, the half-year financial-accounting statements as of 30.06.2017, drafted in compliance with the applicable accounting standards, provide a correct and accurate image of the actual assets, liabilities, financial status, profit and losses account of Rompetrol Rafinare SA and, respectively, of its subsidiaries included in the financial statements' consolidation process, as well as that the Reports of the Board of Directors (on the individual financial statements drafted in compliance with the International Financial Reporting Standards ("IFRS") and on the consolidated financial statements drafted in compliance with IFRS) are presenting the information concerning the Company's activity in a correct and complete manner.

Chairman of the Board of Directors of

Rompetrol Rafinare S.A.

____

Cătălin Dumitru

Chief Executive Officer

____

Yedil Utekov

Chief Financial Officer

____

Vasile-Gabriel Manole

Date: 11 august 2017

Trade Registry No: J 13/534/1991
Fiscal Identification No: RO1860712

IBAN: RO22BACX0000000030500310
UniCredit Tiriac Bank – Constanta

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ROMPETROL RAFINARE
Q2 and H1 2017 IFRS CONSOLIDATED UNAUDITED RESULTS

Increasing revenues in the first 6 months of 2017

Rompetrol Rafinare S.A. (symbols, Bucharest Stock Exchange: RRC, Reuters: ROMP.BX, Bloomberg: RRC RO) has released today its Second Quarter and First Semester 2017 financial and operational unaudited results. The figures include unaudited consolidated financial statements for this period prepared by the company in accordance with International Financial Reporting Standards („IFRS"). The IFRS financial results differ in some respects from the Romanian Standards of Accounting.

Consolidated financial statements of Rompetrol Rafinare include the results of the parent company Rompetrol Rafinare S.A and its subsidiaries Rompetrol Downstream S.R.L, Rompetrol Gas S.R.L, Rompetrol Quality Control S.R.L, Rom Oil SA, Rompetrol Logistics S.R.L and Rompetrol Petrochemicals S.R.L.

The document is posted on our website in the Investor Relations section:

www.rompetrol-rafinare.ro

HIGHLIGHTS – CONSOLIDATED

		Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Financial							
Gross Revenues	USD	896,964,832	987,817,768	-9%	1,718,414,575	1,702,624,994	1%
Net Revenues	USD	660,231,116	676,904,714	-2%	1,274,423,444	1,153,144,118	11%
EBITDA	USD	23,015,714	55,221,080	-58%	57,538,863	90,198,125	-36%
EBITDA margin	%	3.5%	8.2%		4.5%	7.8%	
EBIT	USD	(2,179,652)	31,811,711	N/A	7,434,687	42,452,061	-82%
Net profit / (loss)	USD	(6,966,587)	21,991,076	N/A	(7,030,136)	22,031,313	N/A
Net Profit / (loss) margin	%	-1.1%	3.2%		-0.6%	1.9%	

Rompetrol Rafinare Constanta (RRC) gross revenues reached USD 897 million in Q2 2017 and over USD 1.718 billion for H1 2017. The decrease of this indicator by 9% respectively the increase by 1% as against the same periods in 2016 was influenced by the volatility of international quotations for petroleum products.

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ECONOMIC ENVIRONMENT

		Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Brent Dated	USD/bbl	50	46	9%	52	40	30%
Ural Med	USD/bbl	48	44	10%	50	38	32%
Brent-Ural Differential	USD/bbl	1.15	1.69	-32%	1.32	1.67	-21%
Premium Unleaded 10 ppm FOB Med	USD/t	519	487	7%	531	442	20%
Diesel ULSD 10 ppm FOB Med	USD/t	449	409	10%	464	360	29%
RON/USD Average exchange rate		4.14	3.98	4%	4.19	4.03	4%
RON/USD Closing exchange rate		3.99	4.06	-2%	3.99	4.06	-2%
RON/EURO Average exchange rate		4.55	4.50	1%	4.54	4.49	1%
RON/EURO Closing exchange rate		4.55	4.52	1%	4.55	4.52	1%
USD/EURO Closing rate		1.14	1.11	3%	1.14	1.11	3%
Inflation in Romania*		0.60%	-0.07%	N/A	0.40%	-0.99%	N/A

*Source: Platts, * INSSE*

Over H1 2017 crude prices were again driven by market oversupply as producers ramped up output to maximize revenue in the lower flat price environment. After a strong start, the steady downward pressure from the supply side resulted in an H1 average price for outright Brent in the range of around $52 per barrel compared to $40 for H1 2016.

Several factors converged to make rebalancing possible. Output agreement between OPEC and 11 non-OPEC producers, pushed price levels up to around $55 per barrel until March, when trend changed in March on fears of a US production recovery and indications of returning Libyan production. In April, another upward move was brought on by Libyan force majeure interrupting exports from an important terminal. End-April prices have started to decrease due to steady upward march of US crude production, return of Nigerian crude oil from force majeure and recovery of Libyan production plus a stubbornly high crude stocks despite record levels of crude intake over Q2.

Urals differentials have generally been stronger year-on-year over H1 2017. In early H1, the additional tightness in differentials could be attributed to the effects of the OPEC/non-OPEC cut. From the second half of H1 onwards the surge was fueled primarily by logistical problems – particularly extensive work on the pipeline network feeding Primorsk. Average spread between Urals Med and Dated Brent stood at around $1.30 per barrel in H1, roughly 30 cents narrower than H1 2016. Urals Med differentials had their extreme ends at 67 cents per barrel and around $2.00 per barrel against Dated Brent, representing a much wider range of values than in the same period last year. A significant factor has been a curtailment in Urals loadings from Baltic ports due to pipeline issues. Alongside the shorter loadings caused by the pipeline works, a significant demand increase from Asian buyers helped to strengthen the uptick in prices. India and China have become particularly keen importers of Urals, as multiple indicators show increasing arbitrage flows into these markets.

High stock levels kept gasoline cracks under a firm lid over the early year, and benchmark cracks in Europe, Asia, and the US all coming in below 2016 levels over the first couple of months. A largely seasonal recovery towards the end of Q1 brought with it some optimism, but since then, cracks have largely stagnated. At the same time, recovering middle distillate cracks have allowed for crude intake to remain high, or, in some cases, increase even

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further. Parts of the pressure on gasoline cracks has clearly come from record crude intake in the US. Here, gasoline production levels moved from strength to strength, with stock builds only recently showing signs of easing. Some of the surplus production has found its way to Latin American countries ailing from persistent refinery issues, but this has nonetheless pressured arbitrage flows from Europe to America. Mediterranean gasoline has been trending at consistent discounts to Singapore 95 over the quarter, in contrast to the premiums observed over Q2 2016. A relatively strong Asian market meant that Med gasoline has likely increasingly been drawn into the Middle East, where there has been a chronic outage at Ruwais refinery.

This year, European gas oil/diesel cracks saw a relatively strong H1. Although still trending below the five-year average, they were consistently higher year-on-year over Q1 and most of Q2. Cold weather in Q1 underpinned strong regional demand growth which in turn tightened the European gas oil/diesel balance in addition to the seasonal tightening due to maintenance. In Q2, high crude runs kept gas oil/diesel lead to increasing product stocks, which translated into pressure for cracks over May amid a downside in heating requirements.

JBC Energy's standard Urals cracking margin, based on a basket of crudes typically bought by Med refiners improved by a solid $1 per barrel over the first half of the year relative to H1 2016. The improvement came in combination with a soaring in crude runs, exceeding 2015 levels even though a refinery closure in France last year shrunk the region's CDU capacity. There is little doubt that rampant refinery outages in Central and South America contributed at least part of this good fortune. ULSD volumes from the US tended to find a more profitable home in the likes of Brazil and Mexico, while the rise in Russian ULSD output turned out to be milder than expected. Both factors left the Med ULSD market moderately tight, and elevated middle distillates into the primary drivers of refining margins.

**The information is based on analysis provided by JBC Energy GmbH*

ROMPETROL RAFINARE
Q2 and H1 2017 IFRS CONSOLIDATED UNAUDITED RESULTS

REFINING SEGMENT

		Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Financial							
Gross Revenues	USD	715,911,958	815,890,922	-12%	1,413,931,408	1,392,259,088	2%
Net Revenues	USD	531,987,287	560,370,927	-5%	1,046,925,644	937,138,992	12%
EBITDA	USD	15,207,318	37,357,661	-59%	42,246,205	58,042,466	-27%
EBITDA margin	%	2.9%	6.7%		4.0%	6.2%	
EBIT	USD	(542,004)	22,888,855	N/A	8,393,609	28,718,178	-71%
Net profit / (loss)	USD	(15,841,722)	19,903,637	N/A	(17,210,246)	9,492,502	N/A
Net profit / (loss) margin	%	-3.0%	3.6%		-1.6%	1.0%	
Gross cash refinery margin/tone (PEM)	USD/t	30.94	42.32	-27%	39.55	42.31	-7%
Gross cash refinery margin/bbl (PEM)	USD/b	4.26	5.83	-27%	5.45	5.83	-7%
Net cash refinery margin/tone (PEM)	USD/t	10.70	22.45	-52%	16.49	19.87	-17%
Net cash refinery margin/bbl (PEM)	USD/b	1.47	3.09	-52%	2.27	2.74	-17%
Operational							
Feedstock processed in Petromidia refinery	Kt	1,222	1,495	-18%	2,422	2,792	-13%
Feedstock processed in Vega refinery	Kt	91	105	-13%	152	172	-11%
Gasoline produced	Kt	308	377	-18%	626	756	-17%
Diesel & jet fuel produced	Kt	668	789	-15%	1,288	1,406	-8%
Motor fuels sales - domestic	Kt	486	530	-8%	950	906	5%
Motor fuels sales - export	Kt	461	585	-21%	859	1,143	-25%
Export	%	49%	52%		47%	56%	
Domestic	%	51%	48%		53%	44%	

Note: Refining segment comprises the results of the company Rompetrol Rafinare (which operates Petromidia and Vega refineries). Rompetrol Rafinare computes Gross refinery margin as follows – (Oil Product Sales – Cost of Feedstock) / Quantity of sales. Net Refinery margin is the EBITDA of the refinery divided by quantity of sales.

Refining segment gross revenues reached USD 716 million in Q2 2017 and USD 1.414 billion in H1 2017 decrease by 12% respectively increase by 2% as against the same periods last year, influenced by the volatility of international quotations for petroleum products.

During May 2017 Rompetrol Rafinare has stop production activities within its both refineries – Petromidia Navodari and Vega Ploiesti in order to perform scheduled technological works, established since November last year.

The works were coordinated by Rominserv, general contractor of the KMG International Group, and targeted the optimization and improvement of production flows, aligned to the new processing capacity of the Petromidia refinery, as well as carrying out of some preventive maintenance works for purposes of increasing the level of safety in operating the units and the level of environment protection.

During the mentioned period, both Rompetrol Rafinare SA production facilities provided supplying of petroleum products towards customers from accumulated stocks before shutdown.

In H1 2017 and in Q2 2017, the total throughput for Petromidia refinery was 2.422 million tons, respectively 1.222 million tons, lower by by 13.26%, respectively 18.32% compared with the same periods last year when the total throughput was 2.792 million tons for H1 2016 and 1.495 million tons for Q2 2016. The decrease in volume of raw material processed compared to similar periods last year is due to the planned shutdown in May 2017.

The refining capacity utilization was 70.4% in H1, respectively 67.45% in Q2, lower by 22.05%, respectively 31.14% compared with the same periods last year, decrease generated by the planned shutdown scheduled in May 2017.

In respect of Vega refinery, the total throughput was 152.017 thousand tons in H1, respectively 91.183 thousand tons in Q2, lower by 11.40%, respectively 13.44% compared with the same periods last year when the total throughput was 171.573 thousand tons for H1 2016 and 105.342 thousand tons for Q2 2016.

The refining capacity utilization was 92.13% in H1 respectively 110.52% in Q2, lower by 11.85% respectively 17.16% compared with the same periods last year.

The financial results of the refining segment were influenced by the lower volume of production and sales achieved compared to the similar periods last year due to the planned shutdown in May 2017. During the analysis period, the processing cost optimization programs were continued and the benefits recorded are in line with budget assumptions.

Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 266 million in Q2 2017 and over USD 520 million in H1 2017.

PETROCHEMICALS SEGMENT

ROMPETROL RAFINARE
Q2 and H1 2017 IFRS CONSOLIDATED UNAUDITED RESULTS

		Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Financial							
Revenues	USD	39,373,835	40,638,281	-3%	79,984,194	91,069,411	-12%
EBITDA	USD	(3,044,293)	3,829,066	N/A	(3,489,295)	7,045,456	N/A
EBIT	USD	(6,582,363)	2,782	N/A	(10,833,524)	(750,755)	N/A
Net profit / (loss)	USD	(1,921,766)	(2,190,631)	-12%	(5,502,836)	992,488	N/A
Operational							
Propylene processed	kt	26	32	-18%	60	65	-8%
Ethylene processed	kt	16	15	9%	28	31	-12%
Sold from own production	kt	38	42	-9%	82	97	-15%
Sold from trading	kt	0	0	-82%	0	1	-89%
Total sold		38	43	-10%	83	98	-15%
Export	%	49%	59%		48%	57%	
Domestic	%	51%	41%		52%	43%	

Petrochemicals segment comprises the petrochemicals activity from Rompetrol Rafinare and the activity of Rompetrol Petrochemicals SRL

Starting 1st of January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A., being fully integrated in the propylene, utilities and logistics flow.

In terms of low density polyethylene unit (LDPE), the petrochemicals segment works 100% with ethylene from import. The polypropylene unit (PP) works with 100% raw material from the Petromidia refinery.

The petrochemicals segment is the sole polypropylene producer in Romania and has constantly succeeded to increase its market share on secondary categories of products. Its dynamic development strategy has secured the company a competitive position on the domestic market and on the regional one – the Black Sea and Mediterranean region and the Eastern and Central Europe.

In Q2 2017, the total polymers production for Petrochemicals area was 31.670 thousand tons by 14.06 % lower compared with the same period last year when the total polymers production was 36.849 thousand tons, mainly caused by planned shutdown (PP unit) and unplanned shutdown (LDPE unit).

In H1 2017, the total polymers production for Petrochemicals area was 64.690 thousand tons by 14.36 % lower compared with the same period last year when the total polymers production was 75.538 thousand tons, mainly caused by planned shutdown (PP unit) and unplanned shutdown (LDPE unit).

ROMPETROL RAFINARE
Q2 and H1 2017 IFRS CONSOLIDATED UNAUDITED RESULTS

MARKETING SEGMENT

		Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Financial							
Gross Revenues	USD	551,419,259	606,170,506	-9%	1,052,015,776	1,033,754,848	2%
EBITDA	USD	11,309,598	14,610,986	-23%	19,174,620	26,521,498	-28%
EBIT	USD	6,684,078	10,256,282	-35%	9,838,937	17,729,225	-45%
Net profit / (loss)	USD	12,536,755	6,356,360	97%	15,648,251	15,532,992	1%
Operational							
Quantities sold in retail	Kt	173	158	10%	319	294	9%
Quantities sold in wholesale	Kt	282	330	-15%	539	556	-3%
LPG quantities sold	Kt	81	78	4%	171	145	18%

Note: Marketing segment includes the results of Rompetrol Downstream, Rom Oil, Rompetrol Quality Control Rompetrol Logistics and Rompetrol Gas

The marketing segment had a turnover of over 551 million USD in Q2 2017 and of 1.052 billion in H1 2017, lower by 9% respectively higher by 2% as against the same periods last year.

In Q2 2017 compared to Q2 2016, the Platt's quotations (FOB Med Italy-mean), expressed in the currency of reference, USD were on average by 7% higher for gasoline and by 10% higher for diesel. The decrease of the exchange rate USD/RON by 4% led to an effective increase of 11% for gasoline quotation and of 15% for diesel quotation.

A major influence in changing prices had a reduction in VAT starting with 1st of January 2017, from 20% to 19%, and excise duties on fuels were reduced by 70 eurocents / 1000 liters, cuts that were fully transferred to prices paid by customers at the pump.

As of June 2017, the Rompetrol Downstream's distribution segment contained 789 points of sale, including the network of owned stations, partner stations and mobile stations: expres, cuves and internal bases.

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APPENDIX 1 – CONSOLIDATED INCOME STATEMENT 2017, UNAUDITED

Amounts in USD

	Q2 2017	Q2 2016	%	H1 2017	H1 2016	%
Gross Revenues	896,964,832	987,817,768	-9%	1,718,414,575	1,702,624,994	1%
Sales taxes and discounts	(236,733,716)	(310,913,054)	-24%	(443,991,131)	(549,480,876)	-19%
Net revenues	**660,231,116**	**676,904,714**	**-2%**	**1,274,423,444**	**1,153,144,118**	**11%**
Cost of sales	(613,754,687)	(606,017,146)	1%	(1,175,922,909)	(1,033,407,093)	14%
Gross margin	**46,476,429**	**70,887,568**	**-34%**	**98,500,535**	**119,737,025**	**-18%**
Selling, general and administration	(47,063,251)	(40,564,164)	16%	(88,165,446)	(78,602,299)	12%
Other expenses, net	(1,592,830)	1,488,307	N/A	(2,900,402)	1,317,335	N/A
EBIT	**(2,179,652)**	**31,811,711**	**N/A**	**7,434,687**	**42,452,061**	**-82%**
Finance, net	(5,127,999)	(7,983,959)	-36%	(13,669,228)	(16,139,997)	-15%
Net foreign exchange gains / (losses)	701,570	(1,653,870)	N/A	(380,525)	(3,808,769)	-90%
EBT	**(6,606,081)**	**22,173,882**	**N/A**	**(6,615,066)**	**22,503,295**	**N/A**
Income tax	(360,506)	(182,806)	97%	(415,070)	(471,982)	-12%
Net result	**(6,966,587)**	**21,991,076**	**N/A**	**(7,030,136)**	**22,031,313**	**N/A**
EBITDA	**23,015,714**	**55,221,080**	**-58%**	**57,538,863**	**90,198,125**	**-36%**

APPENDIX 2 – CONSOLIDATED BALANCE SHEET JUNE 30, 2017, UNAUDITED

Trade Registry No: J 13/534/1991
Fiscal Identification No: RO1860712
IBAN: RO22BACX0000000030500310
UniCredit Tiriac Bank – Constanta

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ROMPETROL RAFINARE
Q2 and H1 2017 IFRS CONSOLIDATED UNAUDITED RESULTS

Amounts in USD

	June 30, 2017	December 31, 2016	%
Assets			
Non-current assets			
Intangible assets	7,558,830	7,265,762	4%
Goodwill	82,871,706	82,871,706	0%
Property, plant and equipment	1,119,368,049	1,138,146,913	-2%
Financial assets and other	65,091,474	64,968,050	0%
Total Non Current Assets	**1,274,890,059**	**1,293,252,431**	**-1%**
Current assets			
Inventories	226,157,044	230,091,565	-2%
Trade and other receivables	390,035,870	287,577,488	36%
Derivative financial Instruments	401,671	5,340	N/A
Cash and cash equivalents	6,807,345	15,810,298	-57%
Total current assets	**623,401,930**	**533,484,691**	**17%**
Total assets	**1,898,291,989**	**1,826,737,122**	**4%**
Equity and liabilities			
Total Equity	**472,308,011**	**478,624,262**	**-1%**
Non-current liabilities			
Long-term debt	-	193,162,805	-100%
Provisions	74,981,195	76,429,343	-2%
Other	496,743	483,680	3%
Total non-current liabilities	**75,477,938**	**270,075,828**	**-72%**
Current Liabilities			
Trade and other payables	879,855,508	788,571,675	12%
Derivative financial instruments	-	323,130	-100%
Short-term debt	470,650,532	289,142,227	63%
Total current liabilities	**1,350,506,040**	**1,078,037,032**	**25%**
Total equity and liabilities	**1,898,291,989**	**1,826,737,122**	**4%**

The financial figures are extracted from Company's unaudited IFRS financial reports.

Chairman of the Board of Directors
of ROMPETROL RAFINARE S.A.

Catalin Dumitru

Chief Executive Officer

Yedil Utekov

Chief Financial Officer

Vasile–Gabriel Manole

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