10 YEARS ANNIVERSARY

# ANNUAL REPORT 2017

KazMunayGas International

rompetrol

*In many cultures, the horse is a symbol of raw energy but also of conquest and expansion.*

*It symbolizes the power, control and determination necessary to achieve victory, fame and riches.*

*The horse is a universal symbol of freedom without boundaries, of hope and optimism, and it has a special place in Kazakhs' hearts and minds, further proof being its presence in the national emblem of Kazakhstan.*

*What better symbol, for our achievements and plans?*


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WE ARE IN ROMANIA TO GROW TOGETHER, TAKING OUR COMMITMENTS VERY SERIOUSLY WHILE UNDERSTANDING THE VALUE OF THE ASSETS WE MANAGE AND THE VALUE ADDED WE BRING.

Zhanat Tusupbekov
CEO KMG International

DEAR STAKEHOLDERS,

2017 marks a special milestone in the evolution of KMG International as we celebrate 10 years since we started our journey in the Black Sea region through the acquisition of Rompetrol Group. Our partnership has yielded increasingly positive results, registering the historical levels of operational and financial excellence in 2017, proving that the decision of the National Company KazMunayGas back in 2007 to invest in the region has been strategic and very beneficial.

WE ARE IN ROMANIA TO GROW TOGETHER, taking our commitments very seriously while understanding the value of the assets we manage and the value added we bring.
As a result of investments and the relentless involvement of our dedicated employees, currently KMGI owns one of the most complex and productive refineries in South Eastern Europe - the Petromidia Refinery. We are also the proud owners of the Vega Refinery, the oldest production unit of its kind in Romania and the only Romanian producer of polymers, as well as other niche products which are indispensable for many local industrial companies.

WE PUT TOGETHER OUR COMMITMENT AND WORKING EFFORTS, focusing towards delivering outstanding results because many years from now, we want us all to look back with pride and satisfaction at what we managed to accomplish.

From the financial point of view, our operational result (EBITDA) for 2017 amounted to USD 242 million, which is about 20% above the level recorded in 2016, and nearly triple of that recorded in 2012 (USD 79 million). At the same time, the net profit increased greatly compared to the year 2016, reaching USD 80 million. The exceptional improvement is even more apparent compared to the USD (-208) million result registered in 2012.
The Group gross turnover for this year amounted to more than USD 9.5 billion, up 36% from the levels recorded in 2016.

2017 MARKED SEVERAL HISTORICAL RECORDS FOR THE PETROMIDIA REFINERY, both in terms of processed feedstock volumes and outputs such as fuels and other petroleum products - from 3.8 million tons in 2007 to 5.66 million tons in 2017 (and up by 5% as compared to 2016).





VEGA REFINERY ALSO RECORDED AN ALL-TIME-HIGH in terms of total feedstock processed, with bitumen production rising to 96,400 tons and ecological solvents consolidating at 41,000 tons.

The outstanding results of both refineries were also backed up by an increase in the sales volume of petroleum products in Romania and in the region. The optimization and efficiency of processing, logistics and distribution costs, was doubled by the implementation of several transformation programs aimed at reducing operational expenses and increasing profitability.
Also, our petrochemicals activity achieved historical level of 198,000 tons processed feedstock.

OUR RETAIL AND TRADING BUSINESS UNITS EMBARKED ON A POSITIVE TREND in terms of environmental efficiency, with an impressive drop of 34.2% in power consumption for Rompetrol Gas, the Group's LPG trading division and a decrease of 4% in overall consumption for Rompetrol Downstream, KMG International's retail division which includes the Groups network of gas stations and warehouses.

Our efforts to protect the safety and health of our employees, contractors and communities are at the heart of what we do every day. Lost Time Injuries (LTI) dropped from 12 to 1 and Loss Time Injury Frequency was reduced by over 90%. More than 30,000 hours were put into health & safety trainings across the Group in 2017 alone, and our employees were also provided with the opportunity to attend specific development programs adapted to their position level and talent pool segmentation category.

WE TRANSFORMED PETROMIDIA IN THE MOST MODERN REFINERY IN SOUTHEASTERN EUROPE AND WE SHALL NOT STOP HERE.
We are committed to remaining trusted partners, while contributing further to the confident growth of Romania towards a brighter future.

Education, continuous improvement and work-related skill development are fundamental to a sustainable economic growth, which is why we constantly invest in our people and, in return, we are rewarded with dedication, creativity and great achievements, which help KMG International advance towards the future.
We understand the value of partnering with the communities in which we operate, and our aim is to contribute to the balanced development of all facets of human life, including health and well being, culture and education, skill development and leadership, or social and environmental stewardship.

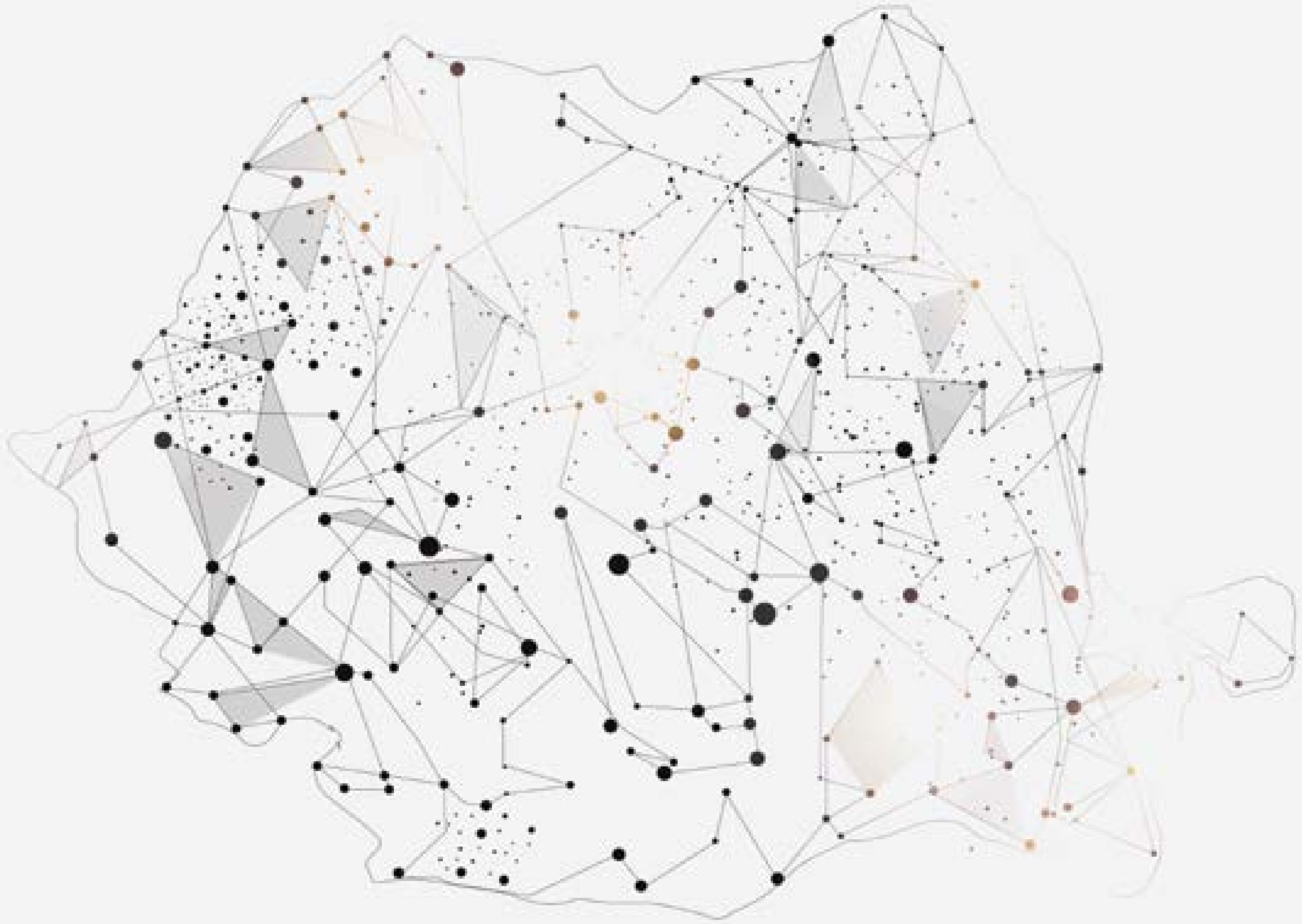
CURRENTLY, KMG INTERNATIONAL PLAYS AN IMPORTANT CONTRIBUTION TO THE ECONOMIC GROWTH OF ROMANIA, being one of the largest contributors to Romania's state budget and among the country's main exporters. Moreover, KMG International has a significant contribution to Romania's energy security by ensuring a diverse supply of crude oil and thus, reducing vulnerabilities in case of a regional disruptions.

OUR ROOTS WILL ALWAYS BE IN ROMANIA; therefore, we have the aim of increasing our domestic presence here. At the same time, we will focus on further development and strengthening our presence in retail and trading markets around the Black Sea.

Our investments are geared towards building a solid foundation for the future and creating long-term value for the society. We have been building together for over a decade and we look towards our future with responsibility and optimism.

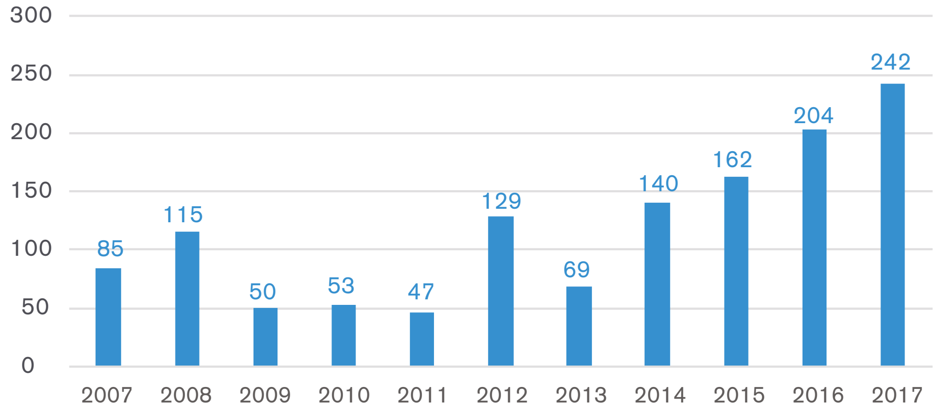
I am proud of my colleagues and confident in their abilities to deliver industry-leading performance, I am proud of KMG International's corporate performance, and I look forward to building upon our progress to secure an even stronger future for our company and the markets we serve.

# 02 | 10 YEARS OF KMGI IN ROMANIA



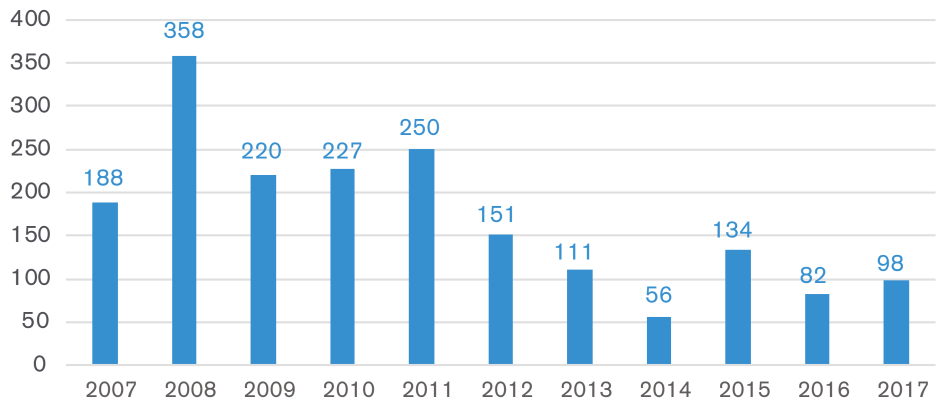
# GENERAL

## PROFITABILITY
(EBITDA $m)




In 2017 KMGI achieved its highest level of operational and financial indicators, a level that has not yet been achieved in the 40 years since the establishment of Rompetrol and the Petromidia Navodari refinery. This level of operational and financial excellence takes place 10 years after the company's integration into the Kazakhstan's national oil and gas company KazMunayGas.

## INVESTMENTS
($m)

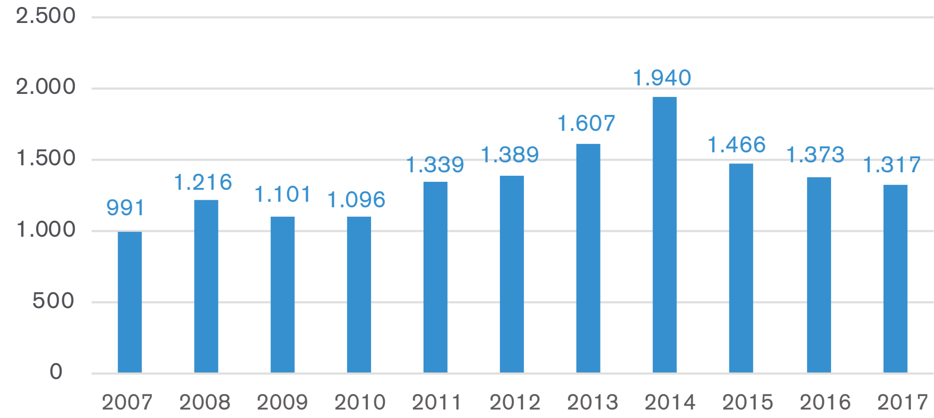



The total value of the investments performed between 2007-2017 is approximately 1.9 bn USD.



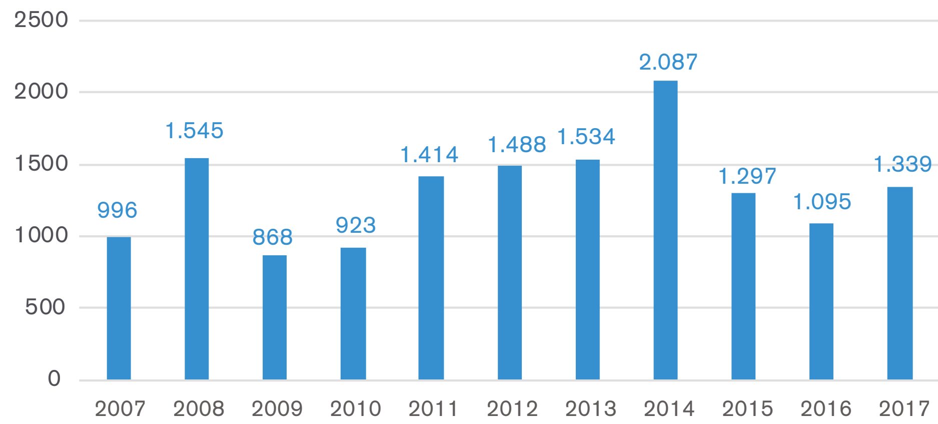


## CONTRIBUTION TO THE ROMANIAN BUDGET
($m)




The group's contribution to the Romanian budget from 2007 onward amounts to over USD14.8 billion. Rompetrol Refinery is the third largest contributor to the Romanian budget.

## EXPORTS OF ROMPETROL RAFINARE
($m)

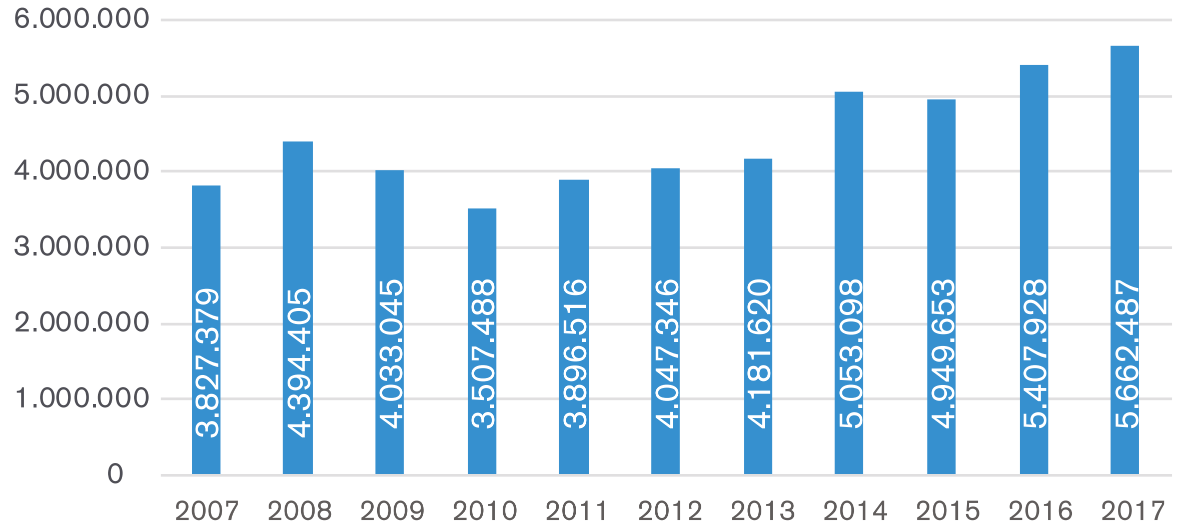



By continually investing in its two refineries, KMG International maintains its position as the biggest exporter of oil products and one of the biggest exporters from Romania.

# OPERATIONAL

## PETROMIDIA - TOTAL FEEDSTOCK

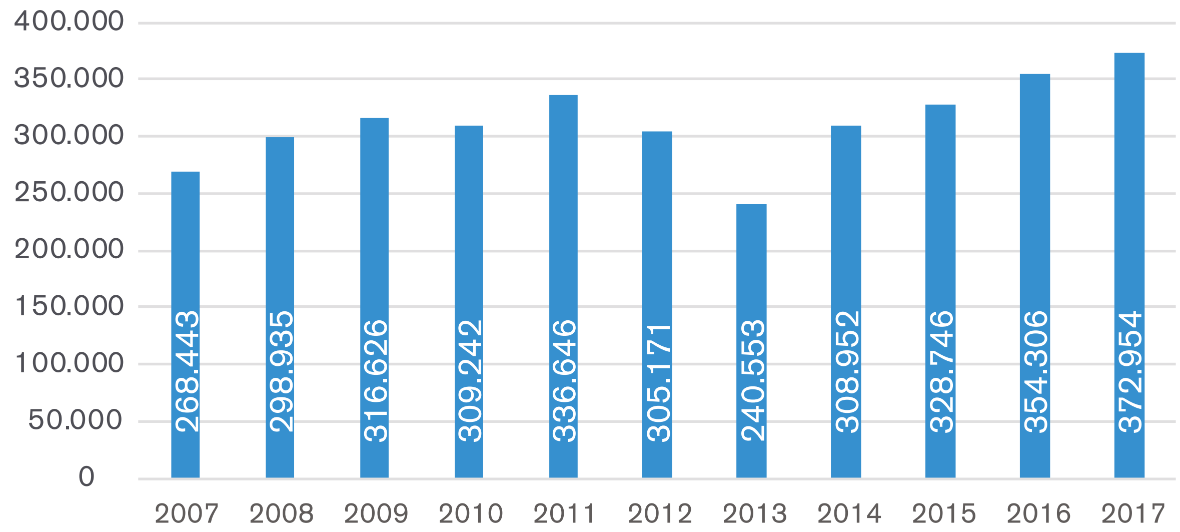
(tons)




Petromidia's results significantly improved due to investments of more than $1 billion since its acquisition by KMGI.

## VEGA - TOTAL FEEDSTOCK

(tons)



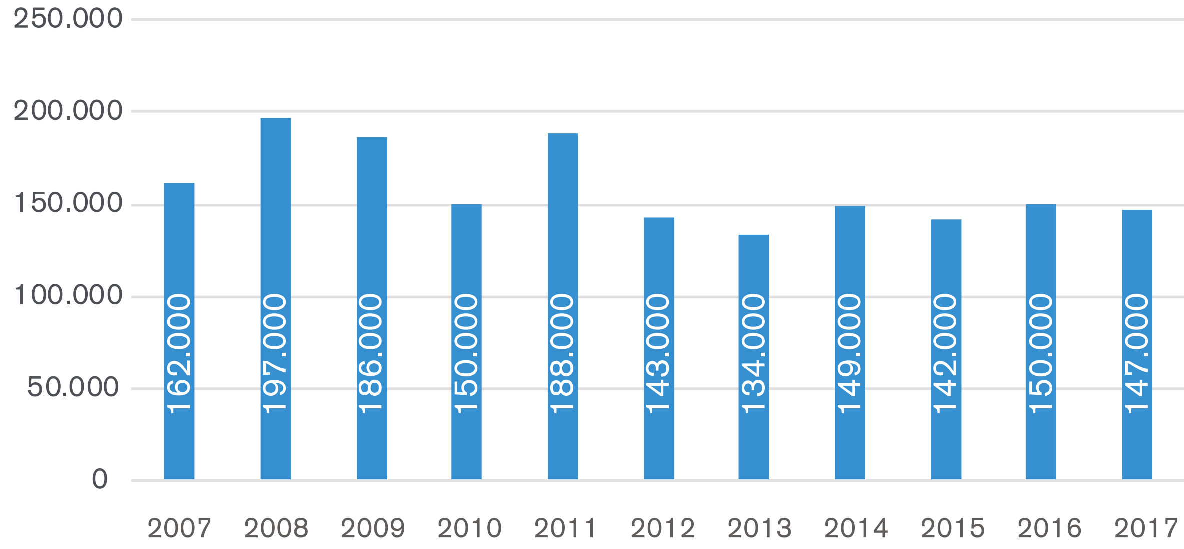

Vega has evolved from a classic refining unit to a producer and supplier of special products obtained exclusively from blanks supplied by Petromidia.





## PETROCHEMICALS - TOTAL FEEDSTOCK

(tons)




What contributed massively to the development of this branch was good integration with the Petromidia refinery that supplies the entire quantity of polypropylene, investments in the modernization of installations and, most of all, the diversification of varieties to cover the latest applications.

## SNAPSHOTS OF THE COMPANY'S ACTIVITY

| Total value of sustainability projects since 2007 (m$) | Contribution to the Romanian energy security: | Direct and indirect jobs generated in Romania |
|---|---|---|
| 11 | 43% | 15.500 |
| | Rompetrol Rafinare currently accounts for over 43% of Romania's domestic refining capacity | |

# 03 | OPERATIONS OVERVIEW

# COUNTRIES OF MAIN OPERATIONS

**KAZAKHSTAN**
KazMunayGas JSC

**THE NETHERLANDS**
KMG International NV

**FRANCE & SPAIN**
Dyneff France & Spain
(49% share)

**ROMANIA**
base of operations
Rompetrol Rafinare
Rompetrol Dowstream
Rompetrol Gas
Byron Shipping

**SWITZERLAND**
KMG Trading

**BULGARIA**

**MOLDOVA**

**GEORGIA**

**TURKEY**

**LIBYA**

**SINGAPORE**

Fully REACH compliant

Fully RAR-certified fuels & additives

Full health & safety compliance

## REFINING & PETROCHEMICAL

5.66 M tons of feedstock processed by Petromidia refinery
373,000 tons of feedstock processed by Vega refinery
198,500 tons of feedstock processed by the Petrochemical Division

USD 15.8/mt Petromidia processing cost
USD 38.5/mt Vega processing cost
USD 247/mt Petrochemical conversion cost

4.88 M tons of white products
1.46 M tons of auto gasoline
2.74 M tons of Diesel fuel
251,000 tons of jet fuel
147,000 ton of polymers
133, 000 tons of propylene
20,000 ton of polymer-grade propylene

LEADING EXPORTER of petroleum products in Romania

SOLE PRODUCER of n-hexane in Romania

SOLE PRODUCER of bitumen in Romania

## RETAIL & WHOLESALE

2.6 M tons of gasoline, Diesel & LPG sold
243 LPG stations
215 distribution stations in near-abroad

## TRADING & SUPPLY CHAIN

19.3 M tons of feedstock shipped
1.55 M tons of products exported
420 shipments processed by MMT





# ROMANIA BASE OF OPERATIONS

**ROMPETROL RAFINARE**

Petromidia Refinery
gasoline
Diesel
jet fuel

Vega Refinery
n-hexane
bitumen
solvents
heating oils
additives

Petrochemical Division
HDPE
LDPE
PP

**ROMPETROL GAS**
cylinders
auto LPG
propane

**ROMPETROL DOWNSTREAM**

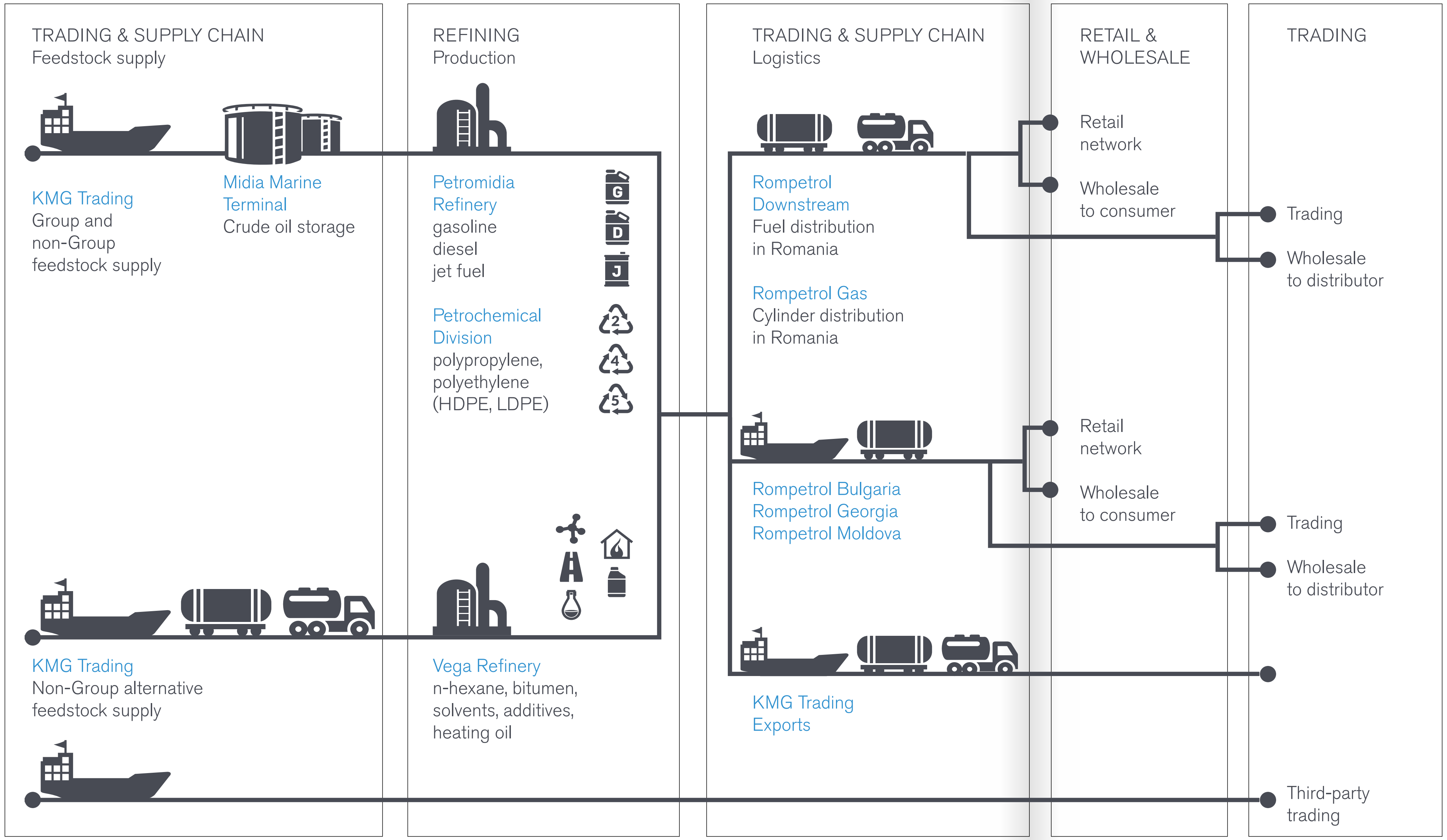
Warehouses
Şimleu Silvaniei
Vatra Dornei
Mogoşoaia
Zărneşti
Craiova
Arad

100% customer satisfaction

Full compliance on marketing & communication

The preferred fuel of 63 out of 100 drivers

# BUSINESS UNITS AND COMPANIES








# CORPORATE & COMMERCIAL BRANDS

KMG International unifies all our foreign assets under one recognizable trademark, which is present across all the 11 main markets we operate on.

Rompetrol is the main brand of KMG International, used for the refining and petrochemicals operations, retail activities in Romania, Moldova, Bulgaria, Georgia and also for well services in the upstream area.

Rominserv is above all a solution provider. Technical and operational advantages establish Rominserv as:

- Leading turn-key contractor for oil & gas investment projects.
- Leading turn-key multidiscipline company managing technological upgrade, turnarounds and plant maintenance.

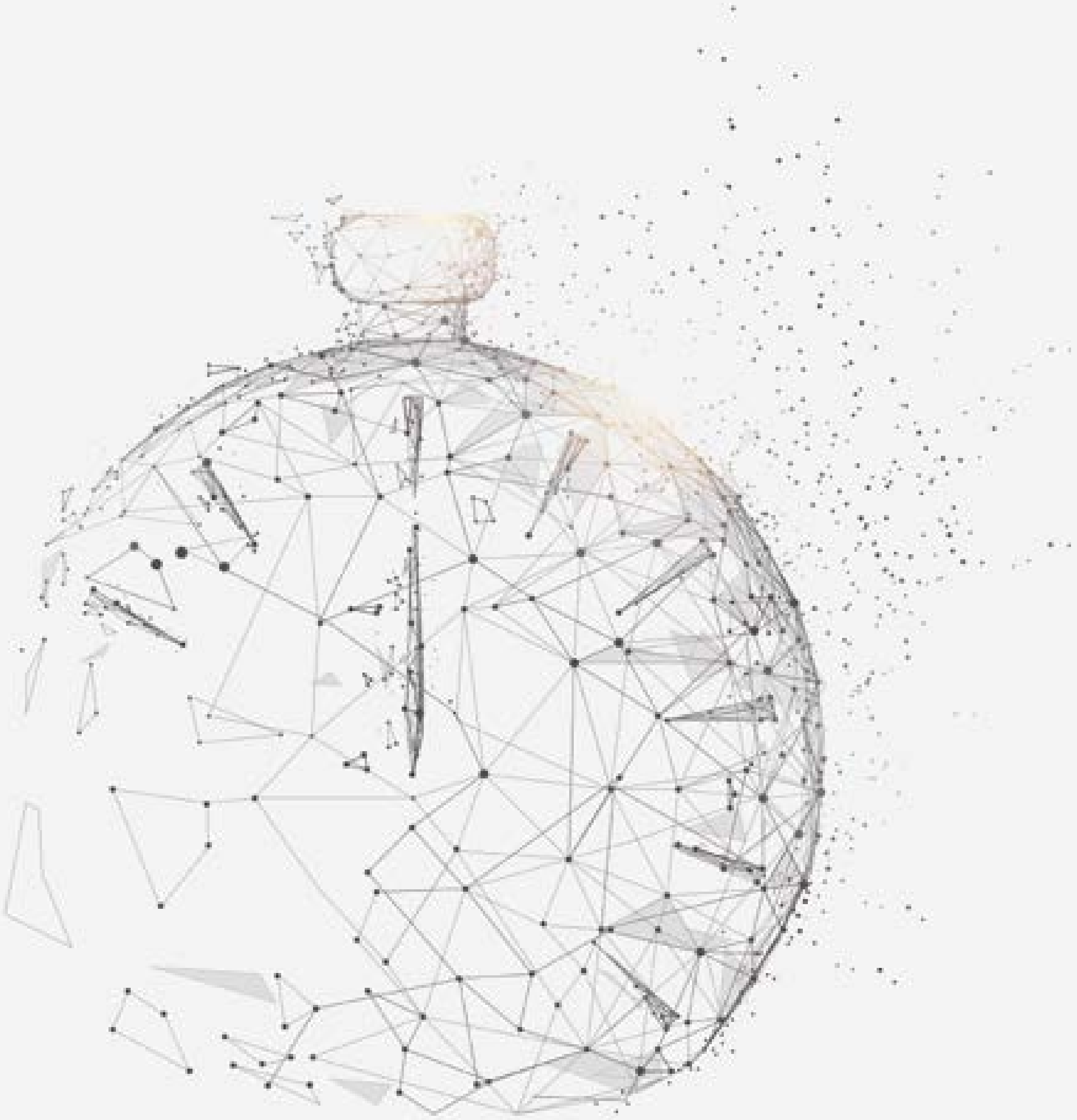
Under the Rompetrol brand we distribute and promote our retail products & services on 4 European markets – Romania, the Republic of Moldova, Bulgaria and Georgia.

Efix is Rompetrol's advanced range of fuels, with outstanding engine performance properties. The products were designed with an optimum combination of additives ensuring not only the cleaning of valves and injectors, but also the reduction in fuel consumption and increase in engine performance. Efix fuels are produced at Petromidia and distributed in Romania, Bulgaria, Moldova and Georgia.

Fill & Go offers innovative pay-at-the pump services, fuels and shopping in the Hei stores, being the first identification system at the pump, available in different versions for both individual and corporate clients.

hei is the shop & gastro concept in our Romanian filling stations, created to improve customers' experience and interaction with our retail products and services. hei is a place where you can relax and recharge your batteries, with a freshly brewed coffee or a variety of delicious sandwiches, pastry and desserts.

# 04 | TIMELINE



## 1974

Rompetrol is created as a vehicle for the transfer of local know-how in the petroleum industry to international markets, playing a significant role in the development of several major projects in the Middle East. During almost four decades of activity, the company services clients in more than 25 countries, across four continents. In Iraq alone, the drilling division of Rompetrol builds over 500 wells after 1974. More than 100 additional projects are finalized in North Africa and Europe, ranging from drilling to well services and workover.

## 1979

Petromidia is launched into operation.

## 1993

First attempt of privatization by Management and Employee Buyout (MEBO); Petromidia's turnover decreased significantly.

## 1998

Control stake is purchased by a local investor group, increasing the working capital of the company and contributing to turnover growth.

## 1999

The Rompetrol Group N.V. ('TRG') is established as a holding company headquartered in the Netherlands. The first major acquisition: Vega refinery – located in Ploieşti.



## 2000

Rompetrol Group takes over Petros – Romania's main oilfield operator at that time. The company was renamed Rompetrol Well Services. The Group purchases Petromidia S.A., Romania's youngest and most modern oil refinery. Rompetrol commits to a modernization process to transform Petromidia into a state-of-the-art facility in Eastern and Central Europe.

## 2001

Rompetrol establishes Rominserv, the first Engineering Procurement Construction and Maintenance (EPCM) provider in Romania. The company inherits the know-how and technical capabilities of the former Construction, General Supervision and Contracting Department of the state-owned company Rompetrol.

## 2002

A petrochemical division is created as part of Petromidia platform - Rompetrol Petrochemicals.

Rompetrol opens its first retail subsidiaries ABROAD: Rompetrol Moldova and Rompetrol Bulgaria.

## 2003

Rompetrol Group started to rebrand and develop its distribution network in Romania under a single standard of quality.
For a better logistic the company added to the retail network, fuel depots in various regions of the country (Arad, Craiova, Mogosoaia, Zarnesti, Vatra-Dornei, Constanta)

## 2004

Rompetrol Rafinare is listed on the Bucharest Stock Exchange (BVB). The Group establishes the trading division of oil and petroleum products named Vector Energy AG (currently KazMunayGas Trading AG).

KazMunayGas International

## 2005

THE COMPANY EXPANDS its fuel distribution network to Georgia – Rompetrol Georgia.

## 2006

THE FIRST MAJOR ACQUISITION of the Rompetrol Group on the European markets: Dyneff, the largest independent fuel distributor in the French market. The company expands its distribution network to Ukraine - Rompetrol Ukraine.


## 2007


KAZMUNAYGAS JSC, the National Oil and Gas Company of Kazakhstan acquires 75% of the Rompetrol Group N.V. shares.

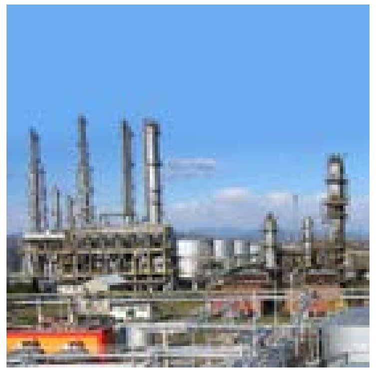
## 2008

THE COMPANY COMMISSIONS ITS OWN OFFSHORE TERMINAL for crude oil in Midia Port at the Black Sea. An ambitious investment plan of modernization and upgrade starts at Petromidia refinery, despite the harsh economic climate, especially for the refining industry.

## 2009


KAZMUNAYGAS JSC takes over the remaining 25% stake in Rompetrol Group N.V.

## 2010



TRG PETROL TICARET A.S., the Group's subsidiary in Turkey is established with a view to expand operations and enter new highly prospective markets.

## 2012

PETROMIDIA REFINERY MODERNIZATION and upgrade program is finalized following an investment of USD 380 million. Petromidia becames the largest refinery in Romania with a processing capacity of over 5 million tons. It ranks as one of the most modern refineries in South-Eastern Europe.

## 2013

THE NEW CONCEPT OF FILLING STATION was launched, aiming at rebranding the entire distribution network of the Group. The new concept sets a new quality standard for the Rompetrol network, combining a premium design with the best technical solutions. Transformation Program (Change for Good) started to be implemented within the Group until 2018. The program targets to improve the overall efficiency of the Group in Romania and in the countries of the Black Sea region.

## 2014

ROMPETROL GROUP N.V. WAS RENAMED INTO KMG INTERNATIONAL N.V. (KMGI). Changing the name was part of the integration process of all activities and transactions within KazMunayGas JSC (KMG), the Group's sole shareholder.


## 2015

FOCUS ON THE RETAIL ACTIVITY: the extensive rebranding program was on going in Romania and in other distribution networks in the Black Sea region (Moldova, Georgia and Bulgaria). Also, the Group developed a new operational model (CoDo) for the entire distribution network in Romania. KMG International N.V. and China Energy Company Limited (CEFC) established a business partnership, after the takeover of 51% shares in the Dyneff group of companies. KMGI continues to hold a 49% equity share in the company.

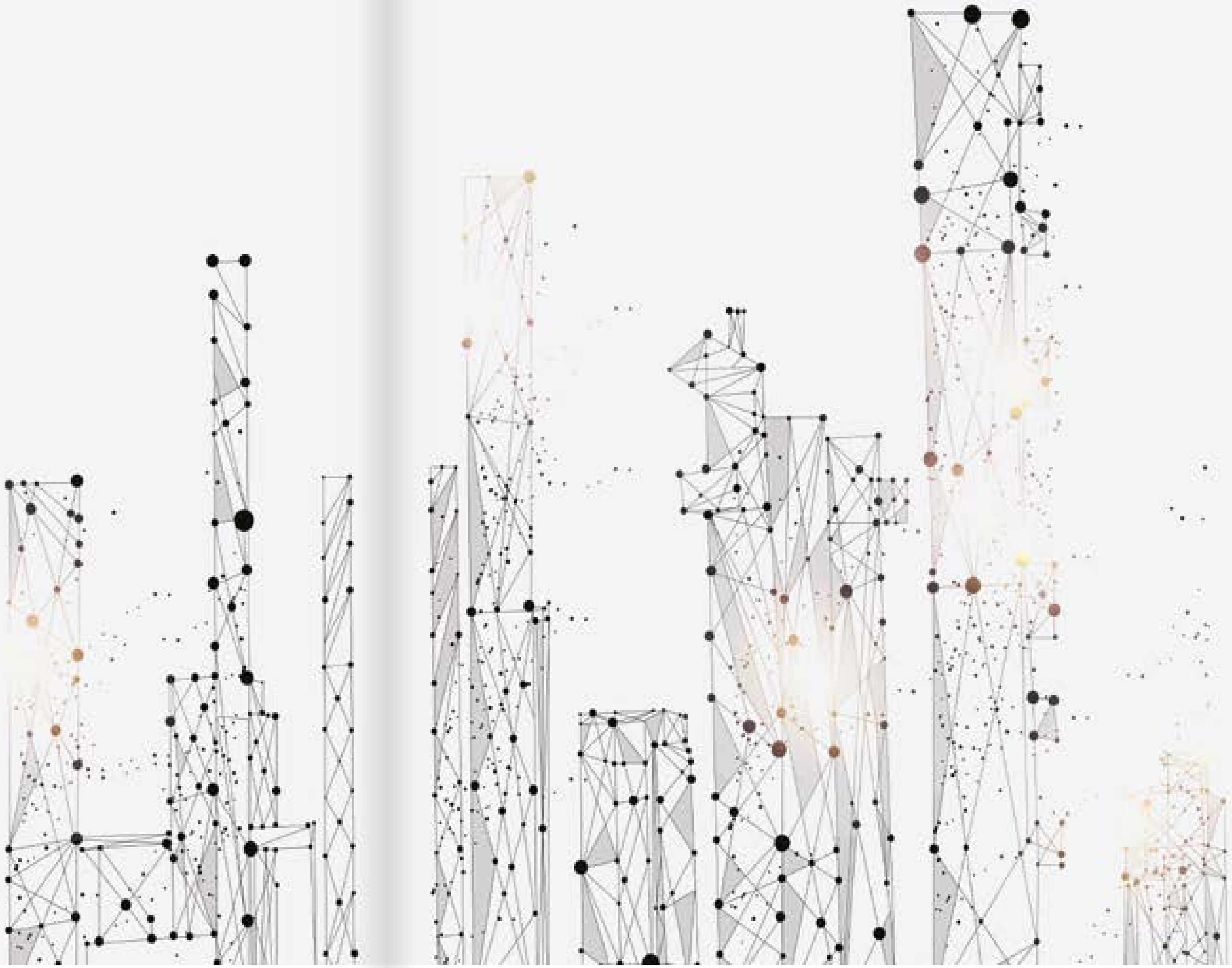
ROMPETROL RAFINARE, a company member of KMG International, registered a consolidated operational result EBITDA amounting to USD 182.5 million in 2016, higher by 62% as compared to 2015, on the background of the historical operational performances registered by the two refineries operated by the company, Petromidia Navodari and Vega Ploiesti

## 2016

## 2017

KMGI ACHIEVED ITS HIGHEST LEVEL OF OPERATIONAL AND FINANCIAL INDICATORS, a level that has not yet been achieved in the 40 years since the establishment of Rompetrol and the Petromidia Navodari refinery. This level of operational and financial excellence takes place 10 years after the company's integration into the Kazakhstan's national oil and gas company KazMunayGas.

# 05 | REFINING & PETROCHEMICALS



# REFINING SEGMENT

Refining and petrochemicals represent one of the main business units of KMG International, keeping the local industry at high standards. It owns two out of four refineries in Romania, the excellence centers Petromidia refinery (Navodari city) and Vega refinery (Ploiesti city) as well as the Petrochemicals division, the sole producer of polymers in Romania.

Petromidia processes mostly Urals type of crude oil, producing exclusively Euro 5 fuels and other very valuable niche products distributed by the Trading and Supply Chain to the Group subsidiaries and other traditional partners.

In 2017, Rompetrol Rafinare S.A. continued to be an important contributor to Romania's fiscal budget with over USD 1.264 billion.

# PETROMIDIA REFINERY THE PILLAR OF THE REFINING INDUSTRY

# 2017 - THIRD YEAR WITH RECORD OPERATIONAL INDICATORS

**19.100**
**tons**
of processed raw materials/day record

**1.46**
**Millions tons**
of gasoline record

**2.74**
**Millions tons**
of diesel record

**44%**
**cut down**
of the processing cost

**94.47%**
**mechanical**
availability index

**5%**
**of EII**
3.04 Gj/
16,700 tons/day

# PETROMIDIA REFINERY

Petromidia is the largest Romanian refinery and one of the most modern refineries in South East Europe. Petromidia makes a significant contribution to the development of Rompetrol's business in Romania and in the Black Sea region. It complements the trading and supply business lines with fuel distribution in Rompetrol's stations in Romania, Republic of Moldova, Bulgaria and Georgia.

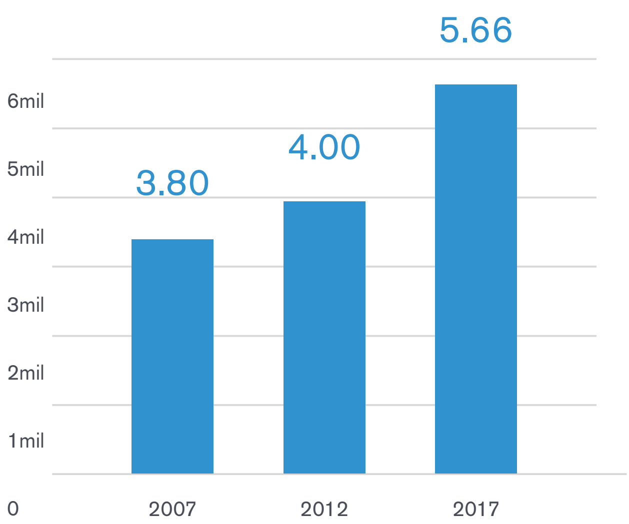
## PETROMIDIA'S RESULTS

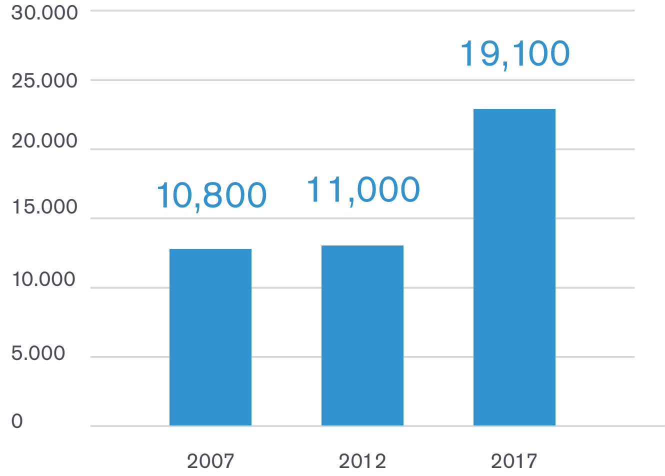
Petromidia's results significantly improved due to investments of more than $1 billion since its acquisition by KMG and, in order to achieve and maintain optimum refinery performance, Petromidia will continue to focus on cost competitiveness and energy efficiency.

The volume processed by the Petromidia refinery has increased from 3.8 million tons in 2007 to 4 million tons in 2012, reaching 5.66 million tons in 2017 (up by 5% as compared to 2016).

## THE DAILY QUANTITY OF PROCESSED RAW MATERIALS

The daily quantity of processed raw materials has constantly increased, from an average of 10,800 tons in 2007 to 11,000 in 2012, respectively 16,763 tons in 2017. In December 2017, the refinery units operating on the Black Sea shore have reached an average daily quantity of approximately 19,100 tons of raw material - the highest level attained in its 41-year history.







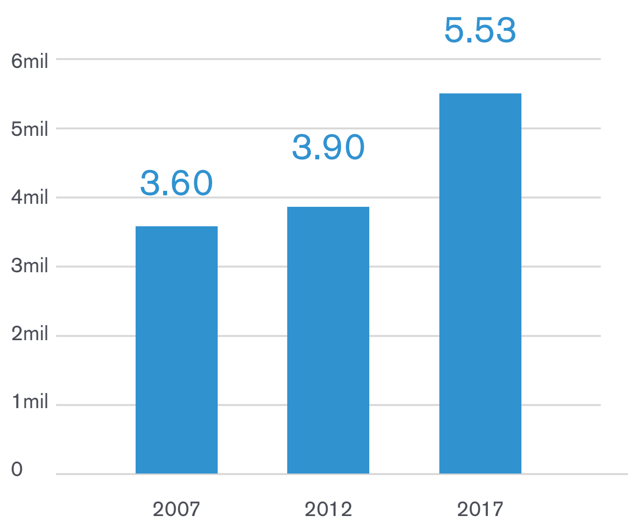

The year 2017 marked several historical records for Petromidia refinery, both regarding the volume of processed feedstock and the production of fuels (gasoline, diesel) and other petroleum products (jet fuel). Based on continuous efforts to implement the internal programs aimed at improving the production activity and energy efficiency, the unit on the Black Sea shore obtained the lowest production cost for the past 10 years.

From 2012 to 2017, Petromidia refinery has achieved an improvement of its operational and mechanical availability, as well as a decrease by approximately 14% of the energy intensity index (EII) and a cut down by 44% of the processing cost.

The refining capacity utilization for Petromidia was 85.88% in 2017, lower by 0.8% compared to last year. Hence, in 2017, Petromidia refinery managed to achieve a very good operational performance, at historically high levels for its main technological and operational parameters

## FINISHED PETROLEUM PRODUCTS

Over 28.5 million of tons of finished petroleum products were obtained by the Petromidia refinery since 2012 until now, the volumes growing continuously - from 3.6 million tons in 2007 to approximately 3.9 million in 2012 and respectively 5.53 million tons in 2017.




## PETROMIDIA 2017

### ~5.66 MILLION TONS
TOTAL FEEDSTOCK PROCESSED

(record total feedstock processed since 1979), an equivalent of 16.8 thousand tons/day of operation, 5% improvement against last year

### 4.88 MILLION TONS
RECORD WHITE PRODUCTS PRODUCTION

### 1.46 MILLION TONS
RECORD AUTO GASOLINE PRODUCTION

### 2.74 MILLION TONS
RECORD DIESEL PRODUCTION

### 133 THOUSAND TONS
RECORD PROPYLENE PRODUCTION

### ONLY 0.85% WT
TECHNOLOGICAL LOSS

### JET YIELD (4.4 %)
EQUIVALENT TO 251 THOUSAND TONS PRODUCTION

### 99.9%
ENERGY INTENSITY INDEX

### 96.47%
MECHANICAL AVAILABILITY

### 93.3%
OPERATIONAL AVAILABILITY

# SUPPLY OF RAW MATERIALS FOR PETROMIDIA REFINERY

THE QUANTITY OF PURCHASED RAW MATERIALS for 2017 was 4% higher compared to 2016.

In 2017, crude oil purchases were kept at levels approximately equal to those of 2016 (4,737,066 tons, vs 4,759,057 tons in 2016) given that the refinery underwent through a planned shutdown period of 24 days in 2017 compared to 22 days in 2016. Crude oil imports were run exclusively through the group's trading company, KazMunayGas Trading AG.

THE VOLUME OF RAW MATERIALS purchased in 2017 from external sources (5,578,520 tons) was higher also by 4% compared to 2016 (5,365,656 tons).

THE AVERAGE PRICE OF CRUDE OIL purchased in 2017 was higher (391 USD/ton) to that of 2016 (309 USD/ton) following an ascending trend for international quotations (in 2017 the average quotation for Brent was of 54.3 USD/bbl vs. 43.7 USD/bbl in 2016.

THE VOLUME OF RAW MATERIAL purchases in the country amounted to 174,402 tons in 2017 vs 130,463 tons the previous year. In addition to this, Vega refinery provided raw materials in total quantity of 30,957 tons\ (25,636 tons in 2016) and from Petrochemicals in total quantity of 25,976 tons (25,803 tons in 2016).

THE SUPPLIERS OF RAW MATERIALS IN THE COUNTRY HAVE BEEN:

MITSUBITSHI - methanol

AGRANA/BIO FUEL ENERGY – bioethanol

PRIO BIOCOMBUSTIBIL/EXPUR/ASTRA

BIOPLANT – biodiesel

OMV PETROM

FCC_Benzina RON 92, Naphta and methane (raw material for the Hydrogen plant)

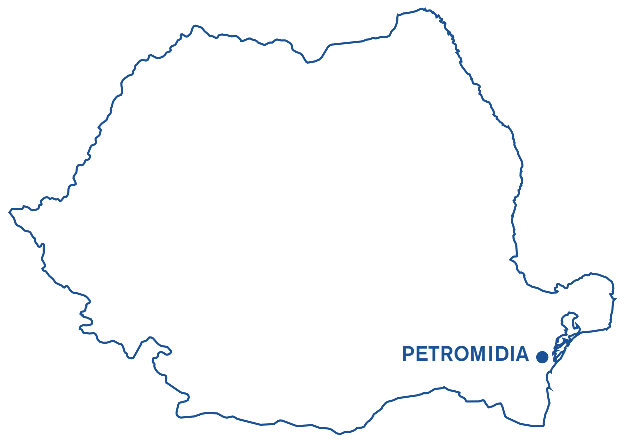


## STRATEGIC POSITION ON THE BLACK SEA

Petromidia is strategically positioned in Navodari, on the Black Sea Coast, 20 km near the port of Constanta.

Petromidia uses its proprietary railway logistics, has access to the Danube-Black Sea channel and many facilities in the Midia Port: wharfs 1-4 for crude oil and oil products and wharfs 9 (A, B and C) for exports of oil products.

The most important logistics asset of the refinery remains the proprietary off-shore sea terminal that can receive up to 160,000 TDW. Through this terminal and the entire logistic system put in place by the company in the region, Romania can become and energy hub, a platform between Asia's natural resources and Europe's demands for processing raw materials and obtaining oil products.




## VEGA REFINERY
## The living history of the Romanian refining industry

## 2017 - THIRD YEAR WITH RECORD OPERATIONAL INDICATORS

**96.400**
**tones**
record bitumen production

**41.000**
**tons**
record production of organic solvents

**2.2%**
**of EII**
3.65Gj/
1.022 tones/day

# VEGA REFINERY

Vega is the second refinery of the KMG International Group, located in Ploiesti, Prahova county, its activity being integrated with Petromidia Refinery.

## HISTORY

Built back in 1905, it is the longest standing local facility, with more than 110 years of experience. It had a complex role of specialized link between the Romanian refineries from the very beginning.

The refinery has evolved from a traditional oil refining facility to a producer and supplier of special products obtained exclusively from semi-finished products supplied by Petromidia Refinery.

## PROCESSING CAPACITY

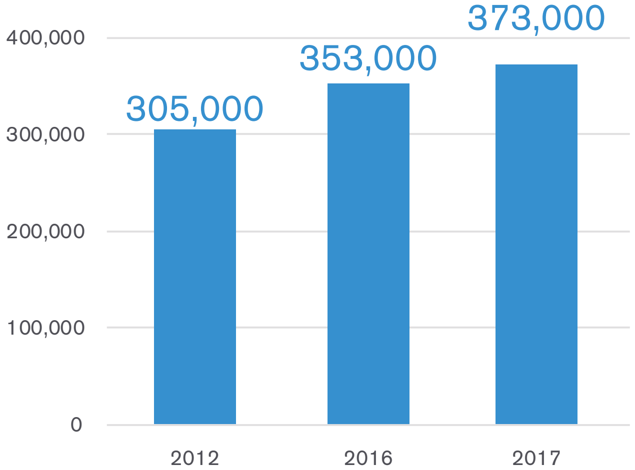
With a processing capacity in excess of 350,000 tons of feedstock/year (refined, fuel oil, A1 jet, C5-C6 fraction), Vega Refinery is well positioned as the sole producer for a number of specific products, including: normal Hexane, organic solvents, refined white spirit, and other oil products (naphtha, white spirit, heating fuel, light liquid fuel, road pavement and special bitumen).

## 90 YEARS IN PRODUCTION OF ROAD BITUMEN

Vega has a history of over 90 years in production of road bitumen. In 2007, 7 million USD were invested in the first plant for polymer-modified road bitumen in Romania. It has a capacity of 66,000 tons of bitumen, polymer-modified bitumen and special bitumen per year. The special benefits of polymer-modified road bitumen are improved elasticity and higher resistance to wear and temperature changes, with a lifetime longer by 50% and traffic noise reduction properties.

## QUANTITY OF PROCESSED RAW MATERIALS

From 2012 to 2017, in synergy with the Petromidia refinery, the Vega Ploiesti refinery has processed a quantity of approximately 1.9 million tons of raw materials, from 305,000 tons in 2012 to 373,000 tons last year, which represents 5.26% higher compared to 2016.




2017 represents the historical record year in terms of total feedstock processed and level of production of bitumen (96,400 tons) and ecological solvents (41.000 tons).

The refining capacity utilization for Vega refinery was 113% in 2017, 5.65% higher compared to last year.

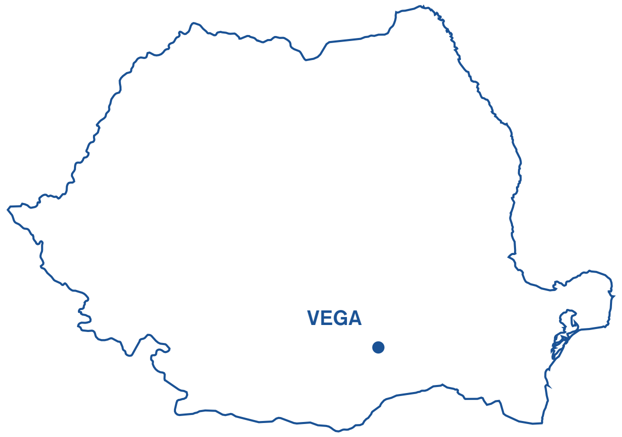



## THE GROSS REFINERY MARGIN

The gross refinery margin improved in 2017 compared with last year by 20% reaching a level of 50.9 USD/ton compared to 42.5 USD/ton in 2016.

The company's financial results were positively influenced by favourable market conditions and by the implementation of production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization programs that started in 2014 and successfully continued until 2017 (out of which reduction in steam and power consumption are considered the most significant).

Hence, in 2017 Vega refinery also managed to achieve very good operational performance results, at historical high levels, of which the following indicators could be emphasized:




## VEGA REFINERY 2017

### 373 THOUSAND TONS

HISTORICAL RECORD FOR PROCESSED FEEDSTOCK, 19 THOUSAND TONS HIGHER COMPARED TO LAST YEAR

### 96 THOUSAND TONS

HISTORICAL RECORD FOR BITUMEN PRODUCTION AND SALES

### 41 THOUSAND TONS

HISTORICAL RECORD FOR ECOLOGICAL SOLVENTS PRODUCTION

### 80 THOUSAND TONNES

HEXANE PRODUCTION REACHED

### ONLY ~ 1%WT

TECHNOLOGICAL LOSS

# PETROCHEMICALS

KEY FIGURES FOR 2017

**EII**
**18,7 Gj-tones**
**record**

**193.000**
**tons**
**of raw materials processed**

**133**
**Kt**
**propylene record**

The KMGI Group through its petrochemicals subsidiaries is the sole polypropylene producer in Romania and it covers more than half of the domestic consumption of petrochemicals.

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These industry branch has known a well-deserved revival in recent years, a breath of air of the refining industry affected by the decline of oil prices.
What contributed massively to the development of this branch was good integration with the Petromidia refinery that supplies the entire quantity of polypropylene, investments in the modernization of installations and, most of all, the diversification of varieties to cover the latest applications.

The petrochemical segment of KMGI has constantly succeeded to increase its market share on secondary categories of products. Its dynamic development strategy has secured a competitive position for the company on the domestic and regional markets – the Black Sea and Mediterranean region and Eastern and Central Europe.

The varieties of polyolefins (polypropylene and polyethylene) produced by the Petromidia refinery are used in agriculture, the food industry and for a wide range of products, from FMCG, personal care, electronics and electrotechnics to auto industry, textiles and constructions.

The petrochemical division has 3 installations: one installation of polypropylene (PP) and 2 for polyethylene, low density polyethylene (LDPE) and high-density polyethylene (HDPE), with a combined output of over 220,000 tons/year.
The company operates the only marine terminal for offloading ethylene at the Black Sea and the only cryogenic tank with a storage capacity of 10,000 tons.
The petrochemicals division produces more than 30 special, niche varieties with added value.
Between 2005-2017, more than USD 100 million have been invested in the petrochemical division and today the results are visible: an increase in production from 20,000 tons of polymers in 2000 to 150,000 tons in 2016 and growing.

In 2017, the total polymers production was 147 thousand tons, 1.77% lower compared to last year when the total polymers production was 150 thousand tons. This was mainly caused by lower operation periods of the production units.
Starting 1st from January 2014, the petrochemicals activity was transferred from Rompetrol Petrochemicals to Rompetrol Rafinare S.A., being fully integrated with the propylene, utilities and logistics flow of Petromidia refinery.
In terms of low-density polyethylene unit (LDPE), the petrochemicals segment works 100% with imported ethylene.



## PETROCHEMICALS 2017

**198,500 TONS**
FEEDSTOCK PROCESSED (MOSTLY LOWER ETHYLENE)

**147,000 TONS**
OF POLYMERS

**20,000 TONS**
OF POLYMER GRADE PROPYLENE

**247 USD/MT**
CONVERSION COST

**NEW GRADE OF POLYMERS**
UNDER DEVELOPMENT

**18.7 GJ/TON**
LOWEST ENERGY INDEX

# PETROCHEMICALS

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In terms of low-density polyethylene unit (LDPE), the petrochemicals segment works 100% with imported ethylene.

| | | 2017 | 2016 | % | 2017 | 2016 | % |
|---|---|---|---|---|---|---|---|
| **FINANCIAL** | | **USD** | **USD** | | **RON** | **RON** | |
| | | | | | | | |
| REVENUES | USD/RON | 191,326,498 | 180,271,804 | 6% | 744,547,067 | 701,527,725 | 6% |
| EBITDA | USD/RON | (5,304,452) | 6,320,969 | -184% | (20,642,275) | 24,598,051 | -184% |
| EBIT | USD/RON | (20,365,240) | (8,865,805) | 130% | (79,251,332) | (34,501,280) | 130% |
| **Net profit / (loss)** | **USD/RON** | **(12,977,684)** | **(11,264,121)** | **15%** | **(50,502,658)** | **(43,834,327)** | **15%** |
| | | | | | | | |
| **OPERATIONAL** | | | | | | | |
| Propylene processed | thousand tons | 134 | 124 | 9% | | | |
| Ethylene processed | thousand tons | 64 | 65 | -2% | | | |
| | | | | | | | |
| Total polymers production | thousand tons | 147 | 150 | -2% | | | |
| | | | | | | | |
| Sold from own production | | 189 | 188 | | | | |
| Sold from trading | thousand tons | 1 | 1 | 17% | | | |
| **TOTAL SOLD** | | **191** | **190** | **1%** | | | |
| | | | | | | | |
| **Export** | **%** | **50%** | **57%** | | | | |
| **Domestic** | **%** | **50%** | **43%** | | | | |



## OUTLOOK FOR 2018

For 2018 the KMGI Group budgeted a crude oil average price of 55 USD/bbl. By computing the difference between quotations of main petroleum products and Urals quotation, weighted with the 2018 approved budget production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur), results a Market refining margin of 48.4 USD/ton.

In 2018, gasoline and diesel demand is expected to increase by 0.53% for the Group's key markets (annual average for Romania and Near Abroad).

Oil prices are unlikely to advance much higher than $70 a barrel in 2018, with the market caught between the opposing forces of OPEC-led production cuts and surging U.S. output, a Reuters poll showed on 31st of January. The survey of 34 economists and analysts forecast that Brent crude oil will average $62.37 a barrel in 2018, up from the $59.88 forecast in the previous monthly poll.

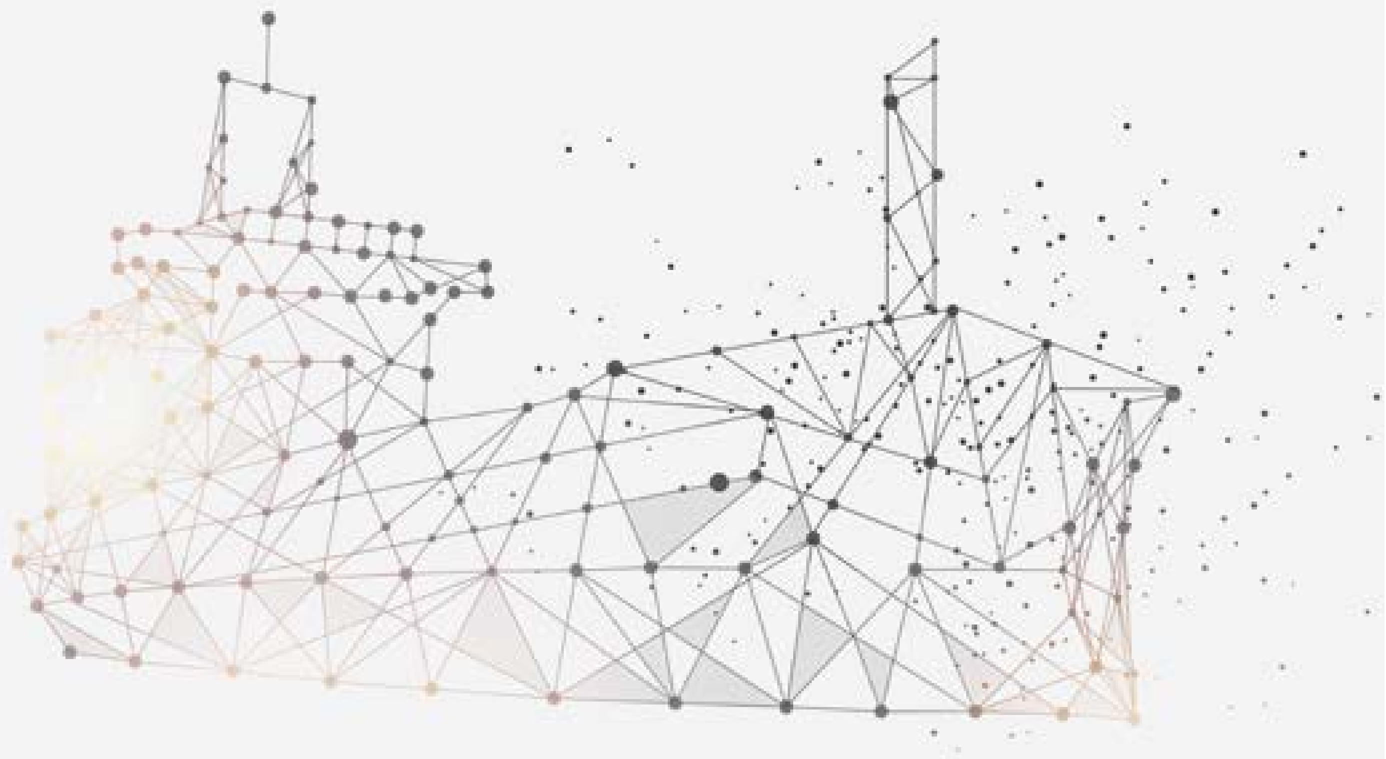
The KMGI Group will continue to carry on the operational initiatives which were identified and put in motion starting 2016, such as: refining planning and production optimization, energy efficiency and organizational effectiveness, increase of non-fuel profitability, Asian Market trading profitability increase.

The Group's 2018 production budget is based on the following assumptions:

- Total feedstock planned to be processed in 2018 is estimated at 5.45 million tons or 16.4 thousand tons/day
- White products yield of 85.6%, 1% below values in 2017, this is mainly caused by a different feedstock structure (crude oil and SRGO)
- Increase in processing costs of 1.7 USD/ton compared to 2017, mainly due to higher utilities tariffs and a negative impact of the exchange rate

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected reach higher levels than in 2017.

# 06 | TRADING AND SUPPLY CHAIN



# TRADING AND SUPPLY CHAIN

The Trading and Supply Chain Department (TSC) of KMG International coordinates the whole chain of supply and distribution of raw materials and petroleum products, on both domestic and international markets.

KEY FIGURES FOR 2017

**19.3 Millions tons feedstock and products handled**

**1.55 Millions tons of oil products exported**

**420 shipments handled by MMT**

Trading provides the three production units of the Group, Petromidia and Vega refineries and the sole petrochemicals division in Romania with crude oil and raw materials. It manages the petroleum products stocks in the refining and retail divisions in Romania and it also sells fuels and niche products locally and to the Group's subsidiaries (Bulgaria, Moldova, Georgia), as well as to other traditional partners.

Following the completion of the Petromidia refinery capacity increase to 5 million tons/year in 2012, the company started to optimize the entire supply chain, improving the operations and logistics services in order to be able to manage the new quantities of raw materials and finished products.

KMG International has developed an extensive and efficient supply chain network, which ensures a solid link between the resources in Kazakhstan and the competitive markets in Europe. The strategic location of KMGI main production unit in Midia Port, near Constanta allows fast supply of crude oil to our refinery Petromidia through our own offshore marine terminal located 8.6 km out in Midia Port of the Black Sea.

KMG International's long-term strategy for the Trading and Supply Chain Division focuses on the development of competencies, export sales of crude oil and oil products, maximization of crude oil and oil products export sales margin, as well as an efficiency increase of crude oil supply to Petromidia Refinery and of oil products to the existing markets where the company is present, by eliminating logistical constraints.



## THE FUNCTIONS OF THE TRADING AND SUPPLY CHAIN DIVISION

A. PLANNING AND OPTIMIZATION: permanently improve the process of operational planning/ scheduling, aiming to increase refining margins, as well as to optimize inventory management

B. TRADING: actively supplies the refineries with raw materials and ensures exports of refined and petrochemical products to markets abroad, as well as trading sales into Romania and Near Abroad subsidiaries

C. SUPPORT OPERATIONS: consist in contracting activities and supply optimization planning

D. LOGISTICS: improve the flows of logistic infrastructure activities at the Group level

## PLANNING & OPTIMIZATION OBJECTIVES

Improve operational forecast accuracy in order to optimize both KMGI contribution margin and stock management

NICHE (Expanding logistic infrastructure of Rompetrol Gas, development of new Rompetrol Gas products): Access new markets by entering the Black Sea

LPG market, to efficiently import and export LPG products, and diversify product portfolio

TRADING (3rd party business initiative): Increase trading activities and Group Net Result, by creating business opportunities with 3rd Party Counterparties

OPERATIONS: Optimization of other feedstock supply premiums; ensure efficient front-office support by optimizing contracting activities, scheduling and other feedstock supply; tenders for other feedstock

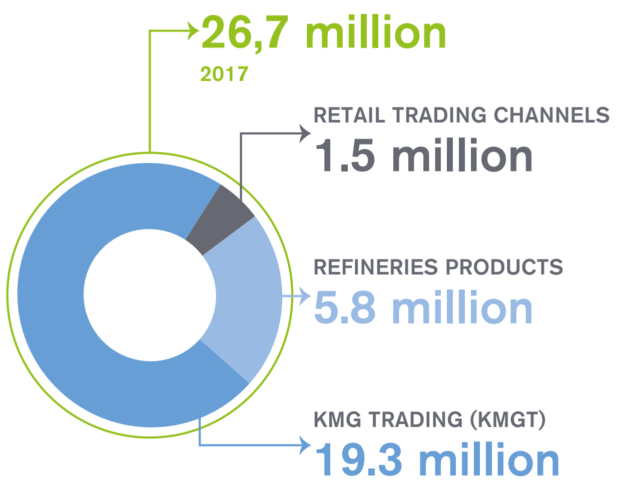
LOGISTICS: Activity improvement by debottlenecking existing logistics infrastructure, continuously improving contractual terms and streamlining business flows

- Optimization of Secondary logistics tariffs in Romania and near abroad
- Reduction of primary DWS and Gas operations cost
- Rompetrol Gas new tender for Secondary logistics
- New tenders for Secondary logistics in near abroad
- Implementation of CMMS (Computerized Maintenance Management Software) for depot maintenance, for better control over depot assets and maintenance costs;
- Reduction of losses
- Rompetrol Downstream Introduced barge transports inside Romania to overcome railway infrastructure constraints (38 kt transported during Sep-Dec17)
- Rompetrol Gas Successfully implemented the Mobile invoicing application for LPG deliveries to Gas depots
- TAS implementation in Refinery
- Increased the loading rate of JET Truck loading by 65%

# KEY FINANCIAL AND OPERATIONAL FIGURES IN 2017

The performance achieved by the Trading and Supply Chain Division in 2017 is closely linked to the historical records obtained by Petromidia refinery in 2016, namely more than 5.3 million tons of raw materials processed, which resulted in 5.33 million tons of petroleum products, up by 6% compared to 2016.

Group trading activities (sales of finished products, purchase of raw materials for production units) registered an upward trend in 2017 with 26,7 million tons traded, of which: KMG Trading (KMGT) 19.3 million tons, Retail Trading Channels 1.5 million tons and Refineries Products 5.8 million tons (18% higher than in 2016, with traded volumes of 22,7 million tons).




These volumes were reflected in the Supply Chain Division, which succeeded to internally manage approximately 420 ships and barges of which 363 ships in Midia port and 57 ships in the port of Con-stanta, appx 660 trains that left the refinery, seven storage centers in Romania and hundreds of tanks and Rompetrol filling stations.

Of the 19.35 million tons traded by KMGT in 2017, 12.15 million tons (vs. 9.32 million tons in 2016) were traded outside of KMGI Group, generating a Non-Group Contribution of USD 30.9 million from KMGT alone, mainly driven by the deliveries of CPC to external partners, as well as by the trading activities carried out in the Eastern European and Asia-Pacific markets.

Moreover, in 2016, KMGT provided support to NC KMG to raise $4bn Prepayment Funding, as KMGT led commercial negotiation on Crude TCO , LPG TCO, and Kashagan Crude, which resulted in a Net Return in KMGT of 0.9m$ (Starting April 3.6 million tons of Crude & Starting October, 60kt of LPG). In 2017 the Net Result from Agency Agreement was 1.7m$ (5.7 million tons on Crude and 0.24 million tons on LPG).

As part of Mission 2020+ Project, BU Trading delivered 5.39m$ better results than target, of which:

**USD 5.39 MILLION**
GENERATED BY KMG TRADING

**USD 1.99 MILLION**
GENERATED BY REFINERY TRADING

**USD 0.5 MILLION**
GENERATED BY SUPPLY&CHAIN





# PLANS & PERSPECTIVES FOR 2018

For 2018, the target for Petromidia and Vega sales is to maintain the existing destinations and enter on new markets.

## KMGT

- Develop 3rd party business and implement related enablers (adjust commercial policy, risk policy and hedge policy, adjust finance lines)
- Adjust commercial policy

## SUPPLY & CHAIN

- Continue to implement crude oil diet diversification; target is to have max 60% Urals in diet vs the budgeted 75%
- Continue to use of alternative feedstocks to replace Urals (SRGO and SRFO),
- Continue to use of components for gasoline blending (FCC, Alkylate, Reformate and Naphtha)
- Continue to use of diesel/jet components in order optimize blending
- Petroleum Supply Chain Planning implementation for the optimizing the allocation of more than 4.9 mil tons in Refinery
- Continue the cooperation on diesel with Lukoil in Romania
- Optimization of the Crude oil scheduling, resulting in the processing of more than 4.9 mil tons in Refinery

## LOGISTICS

- Ensure long term barge transportation
- Integrate the Web Scheduling Transportation (DWS) and Mobile Invoicing Application (Gas) on a single platform
- Loading improvements in Refinery (Jet auto, Gasoline, Diesel, Bitumen)
- Continuous optimization of all logistical processes to properly respond to deliveries challenges, while also preserving current 3rd Party Services and identifying new opportunities;
- MMT to work together with Refinery and Rominserv to improve the logistic infrastructure either by optimizing and expanding the storage capacity
- Byron has as a plan to exceed the performances reached in 2017, and increase focus on identifying new business opportunities, markets or business partners

# ACHIVEMENTS IN 2017

In 2017, the total volume of raw materials and oil products handled by the Trading division of the Group amounted to 19.3 million tons, which is 18% more than the result of 2016. These volumes include raw materials supplied to the Group's production units, as well as the supply/sale of oil products to its own regional subsidiaries and external partners.

Export sales of the Group's crude oil products to the subsidiaries of the Group and to other regional partners are carried out by the trading and supply chain division of the Group called KazMunayGas Trading (KMGT).

The export of petroleum products sold by KMGT in 2017 reached 1.55 million tons, which is 15% higher than exported volumes in 2016.

KMGT is also a single operator of the export volumes of crude oil produced by NC "KazMunayGas". Thus, KMGT supplies crude oil to the Petromidia refinery and trading operations for the sale of crude oil on international markets.

More than 96% of the crude oil refined by Petromidia during the period between 2012-2017 was loaded through the Group's Midia Marine Terminal, located 8.8 km from the port of Midia in the Black Sea, directly to the storage tanks of the refinery. The finished crude oil products are supplied via roads, rails and the sea (via Port of Navodari).
The improvement in operating costs by 16% compared to 2012 and by 5% compared to 2016, the number of vessels operated last year by the Midia Marine Terminal was 420, which is 20% higher than in 2012.

## KMGT

**1.46**
**Millions tons**
total volumes products handled, +37% vs 2016

**20.3**
**Millions tons**
non 3P Trading and Agency Agereements, +7.3 mil tons higher vs 2016

**1.46**
**Millions tons**
3rd Party Contribution Margin, +7.5 mil usd higher than 2106

## SUPPLY&CHAIN

**Crude oil diet diversification continued in 2017**

**67%**
**Urals percentage**
in crude oil diet decreased in 2017, from 77% in 2016, improving Refinery gross margin

**1.55 mil**
**Millions tons**
alternative crude oil processed (Azeri, Siberian, EBCO, CPC)

**Benefit of**
**7.4 $/ton**
(i.e. 1 $/bbl, or 11.4 mil $/year) vs market from alternative crudes, as per backcasting methodology

**494 kt**
**of SRGO and SRFO** in 2017, as alternative feedstock supply to replace Urals. The benefit of SRGO vs not having it is around 8 mil $

**80 kt**
**of supply components** for gasoline blending (FCC component, Alkylate, Reformate and Naphtha) estimated benefit around 1 mil $.





## MIDIA MARINE TERMINAL

**15.7**
**mTons**
record volumes handled, overall increase of 2% vs previous year

**3.1**
**m$**
Non Group revenues, mainly from port piloting and towage services

**SPM celebrated**
**385 tankers safely**
operated, equivalent of 33.1 million tons, with 5$/ton recorded savings since start of operations in 2009

## DOWNSTREAM TRADING

**72**
**ktons**
Sales on Fuels Trading Channels in Downstream and Petromidia, +7% above 2016

**639**
**kTons**
Sales Nead Abroad Sister Companies Trading Channels, +12% above 2016 level performance

First contract in place with Oscar from 2010 for the delivery of gasoline and diesel

Balanced domestic market by selling to OMV and MOL

## LPG TRADING

**275**
**kTon**
LPG Trading, while +44% above 2016

**~100**
**kt**
Supplied Propane from 3rd Party, and sold in Romania and Balkan region (Bulgaria, Serbia, Macedonia)

**1st**
**position**
Consolidated position as the biggest Propane importer and distributor in Romania

## NICHE TRADING

Started Trading bitumen in Romania and Moldova

Naphtha diversification, achieving sales in up to 4 countries

**240**
**kt J**
et Sales, +7% vs 2016

## REFINERY TRADING

**5.7**
**Mil Tons**
Sales from Petromidia production

**48**
**$/ton**
Gross Refining Margin achieved through both supply & trading premiums performance and good market environment

## THE IMPACT OF INTERNATIONAL OIL PRICES ON THE PLANNING AND OPTIMIZATION ACTIVITIES

Dated Brent started 2017 from the level of 55$/bbl. and decreased till mid of the year to one of the lowest level since June 2016 44.3$/bbl. After that, the crude oil price recovered and reached the highest level of 66.5$/bbl. in the last day of the year.
In the first quarter, lower supplies due to the start of the spring refinery maintenance season helped the refinery margins. Afterwards, strong contribution came from almost all the cracks back on summer seasonal demand, but the middle distillate complex received a boost from an unplanned outage at Hellenic's 100,000 b/d refinery in Greece. Additionally, Shell shut down Europe's largest refinery in Rotterdam after a fire and this led to an increase of the European Refinery Margins on the short-term.
Also, Med gasoline cracks rose to a two-year high (19$/bbl.) as Harvey, the strongest storm to hit the U.S. since 2004, was producing its effects on the international energy markets. European refinery margins have benefited from hurricane Harvey, increasing to 85$/MT in the last day of August, but the market started to rebalance soon after.
The Refinery Margins decreased during November and December amid declines in all product cracks.

## THE LOGISTIC ACTIVITY OF THE TRAIDING AND SUPPLY CHAIN DIVISION

### MIDIA MARINE TERMINAL

Midia Marine Terminal (MMT) operates the main logistics assets of Petromidia and Vega refineries.

MMT was established in 2007, taking over the administration of the berths in Midia harbor from Rompetrol Logistics, company that developed operations in this area since 2001.
On the Romanian shore of the Black Sea, the company operates three main divisions:

- Offshore oil terminal and crude oil tank farm;
- Onshore oil and gas Midia Port terminals: Berths no. 1-4 (for crude oil & molasses) and no 9 - 9A, 9B, 9C (for fuel products, ethylene and LPG)
- Petromidia and Vega Ramps;
- The offshore terminal is one of the most important assets in the trading activity. Built in 2008, 8.6 km out in the Midia Port of the Black Sea, the crude oil terminal has a technical capacity of 24 million tons/year and receives vessels up to 160,000 tons deadweight.

The marine terminal transfers 5 mill tons of crude, quantity operated by 50 tankers per year. The terminal is linked with the refinery tank farm which has a storage capacity of approximately 400,000 cubic meters.
The main benefits consist in providing significant cost reductions by shortening the transit route by 33 kilometers compared to operating through Constanta Port.

The company has modernized and extended the Berth no. 9 by adding 3 new terminals - 9A, 9B and 9C in order to increase the transit of the finished products from Petromidia refinery, up to 350.000 tons/month. Following important investments, Berth 9 became the most modern and versatile oil & gas terminal and the only cryogenic terminal in Black Sea.

Also, all seven berths of the Group in Midia Port have been dredged, allowing the mooring of ships with more than 10,000 tons dwt and barges with 2,000 tons dwt. Almost 550 vessels and 2 mill tons of oil products, LPG, ethylene & raw materials are imported and exported annually through the berths managed by the company in Midia Port.

The transfer via Petromidia and Vega refineries loading/unloading ramps exceed 3.5 million tons per year of fuel products & LPG, with 60.000 rail tanks operated and more than 35.000 truck tanks operated yearly.

Midia Marine Terminal has increased its naval fleet in 2015, currently operating three tugs - Tirreno, for assistance in handling 150,000 tdw of oil tankers; Bucharest and Astana, for hose maneuvers, offshore maintenance and works, diving support and assistance to vessels in the Midia harbor. The MMT fleet also includes a pilot boat and two working boats.
In 2017, over 32 million tons of crude oil were transferred by the marine terminal.

In December 2017 the SPM terminal celebrates 385 tankers safely operated and 33mln tons handled for refinery;

Crude oil receipt losses were kept to a level of excellence, 0.09%.



KazMunayGas International

## EVOLUTION OF CRUDE/PRODUCT VOLUMES SOLD INSIDE THE GROUP AND TO THIRD PARTIES THROUGH MIDIA PORT TERMINALS

2016

- berth 4 = 51 ships and barges (51 SRGO import ships)
- berth 9 = 539 ships and product barges (38 import and 501 export)

2017

- berth 4 = 42 ships (42 SRGO import ships)
- berth 9 = 604 ships and product barges (53 import si 551 export)

## PLANS & PERSPECTIVES FOR 2018

- Resuming tug/pilot services in Midia Port
- Supporting business development initiatives in Midia Port
- Continuous optimization of all logistical processes to properly respond to deliveries challenges;
- Preserving or identify new ways for Increasing safety of operations;
- Expand Non-Group clients portfolio by better utilization of existing high performance equipment and human resources
- Acquisition of the two bareboat rented tugs Bucuresti and Astana;

MMT management is committed to expand Non-Group clients portfolio by better utilization of existing high performance equipment and human resources in following activities and services:

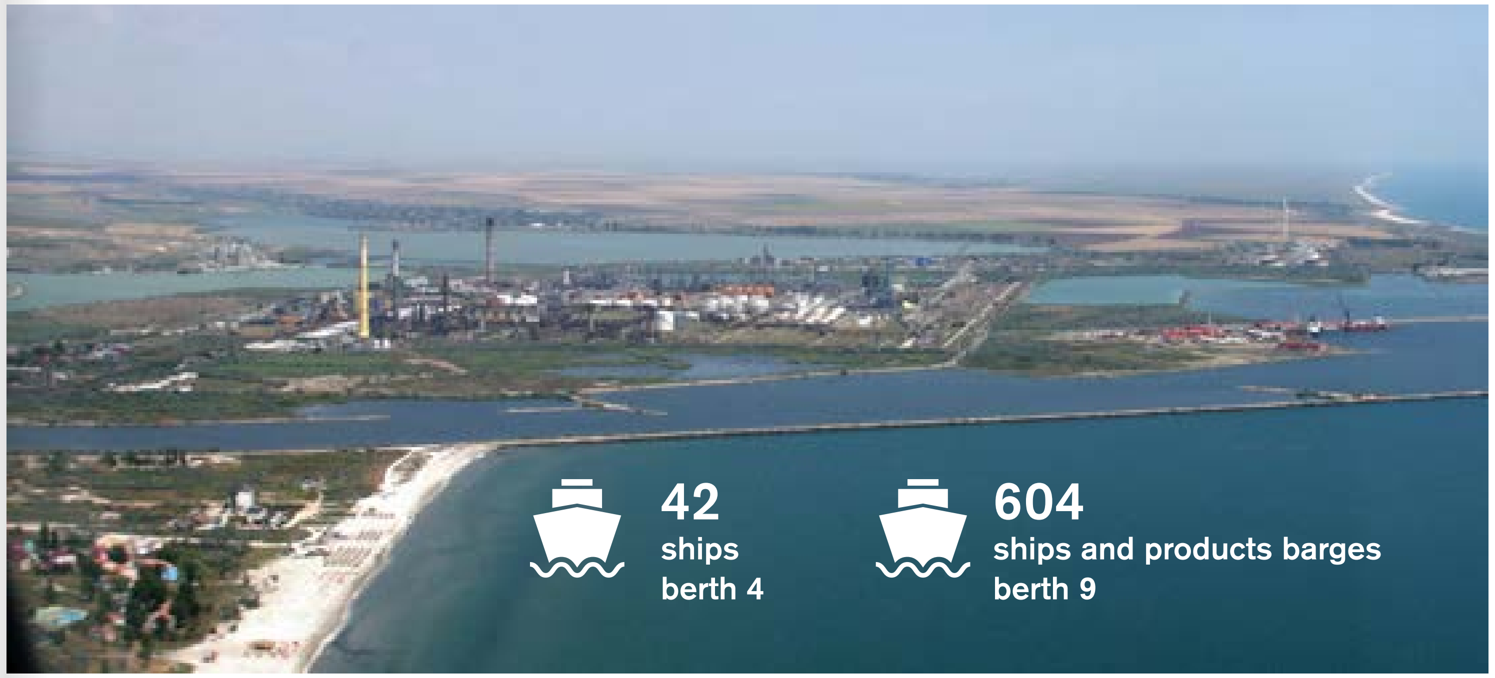
a. Port towage services – providing tugs for shipyard maneuvers and continuing the diligences to resume the towage port services for all vessels calling our terminals in Midia port

b. Towage services, including towage on Danube river and services with tugs for personnel and supply transportation

c. Tugs used as logistics platform for exploratory drilling in shallow water and servicing the marine signalization system of Romanian maritime ports

d. Services with divers and underwater equipment line (underwater inspection and cleaning, other underwater works using specialized tools);

e. Ship to Ship cargo transfer under MMT terminal coverage



## RAILROAD AND TRUCK OPERATIONS IN PETROMIDIA AND VEGA

Total volumes operated by Petromidia and Vega ramps were up by 7.42 % in 2017 compared to 2016, mainly due to the refinery's output increase to full capacity, increasing demand for railway / truck loaded products vs berth and optimization of logistics activities.

### PETROMIDIA RAMPS

#### RAILWAY RAMPS

**8.83%**
**increase**
was registered by rail-loaded volumes. VEGA shipments of raw materials increased by 2.1%

**11%**
**increase**
Diesel for domestic market

**14%**
**increase**
Gasoline for domestic market

**206**
**kt**
monthly Railway loading record achieved in July 2017

**63%**
**increase**
discharging of raw materials received by railway, mainly caused by Biodiesel

**3.015**
**mln tons** of liquid products, representing 62% of total refinery production, operated in 2017 by PEM Railway and truck loading ramps

#### TRUCK RAMPS

**8.7%**
**total truck**
loaded volumes

**101**
**kt**
historical monthly truck loading record achieved in August 2017

**115**
**kt**
jet truck loading up by 40%

**9.5%**
**increase**
LPG truck loading

**63%**
**increase**
discharging of raw materials received by railway, mainly caused by Biodiesel

**365**
**days/year**
Starting with TAS Implementation in IPPA – April 2017, all truck loading ramps in PEM are opened 24/24

#### VEGA RAMPS

**5.4%**
**increase**
in total loaded/unloaded volumes

**96**
**kt**
historical record in Bitumen loadings, up to 6.35% over 2016

**4%**
**increase**
in Hexane Volumes/Ecological Solvents – up by 5%/Naphta increased by 19%

### REFINERY PRIMARY AND SECONDARY LOGISTICS

**17.2%**
**increase**
railroad transported/operated volumes for refinery – up by 20.2%/ shunted volumes for Refinery (PEM&VEGA)

**14%**
**increase**
Vega bitumen volumes transported by trucks represented 62.5% from total Bitumen loadings

**7%**
**increase**
in petrochemical product transports, representing 17.5% from total sold quantity in 2017



KazMunayGas International

## LOGISTICS PROJECTS

- Acquisition of Pantelimon Terminal
- Rompetrol Donstream Introduced barge transports inside Romania to overcome railway infrastructure constraints (38 kt transported during Sep-Dec17)
- Rompetrol Gas Successfully implemented the Mobile invoicing application for LPG deliveries to Gas depots
- TAS implementation in Refinery
- Increased the loading rate of JET Truck loading by 65%

## BYRON SHIPPING LOGISTICS

Byron Shipping was established in 2001 and is the only Romanian agency specialized in ship-to-ship assistance, offering complete shipping services in all Romanian ports, Constanta and Midia included.
The company is the interface of the ship owners with the Romanian authorities, ensuring a full range of specialized services for ships operating in all Romanian ports.

The company equally contributes to the optimization of the traffic flow in Midia and Constanta Ports and also to an efficient planning in the maritime terminals, in accordance with the needs and priorities of the Petromidia refinery and the petrochemicals division.
Byron Shipping operating initially as a shipping agency for some of the oil tankers in Midia Port.
Byron Shipping plays a crucial role in optimizing the supply chain activity within KMG International.

Byron shipping main activity consists in sea and river ship agency:
In 2016, the total number of ships and barges operated was 414, of which 372 in Midia port and 42 ships in Constanta.
In 2017 Byron Shipping operated 420 ships and barges, of which 363 ships in Midia port and 57 ships in the port of Constanta.

## PLANS / DIRECTIONS FOR 2018

Exceed the performances reached in 2017, and increase focus on identifying new business opportunities, markets or business partners

# 07 | RETAIL & MARKETING

# RETAIL & MARKETING

## KEY FIGURES FOR 2017

**2.6**
**Millions tons**
**of gasoline, Diesel and LPG sold**

**482.000**
**Millions tons**
**direct sales of petroleum products**

**1.028**
**fuel**
**distribution points**

**243**
**LPG**
**stations**

**215**
**stations**
**in Bulgaria, Moldova and Georgia**

**Complete rebranding of retail network**

The retail market Rompetrol operates in is more dynamic and consumers' decisions are influenced by the quality of the products, services and brand reputation.

The retail market Rompetrol operates in is more dynamic and consumers' decisions are influenced by the quality of the products, services and brand reputation.

Rompetrol enjoys meeting the complex needs of its clients with an extended network of over 1,000 fuel distribution points in Europe (Romania, Moldova, Bulgaria, Georgia), a contemporary shop concept, proven premium quality fuels, the largest LPG network and a uniquely innovative payment card.

With a legacy of almost 40 years, Rompetrol brand evolved as a European brand after starting the expansion in the distribution segment in 2002, being the only local distribution brand to be present in 5 external markets: Moldova, Bulgaria, Georgia, France and Spain.

Our long-term objectives for the retail and marketing activities is to develop the network of Rompetrol and partner-controlled filling stations and also increase the retail sales, to consolidate the market share, to further strengthen our customers' loyalty and to consolidate the Rompetrol brand in countries where we have operations.

## 2017 POSITIVE RESULTS

**2.0** **Millions tones**
**total fuels sold in Romania, gasoline, diesel, LPG**

**4.2** **Millions tones**
**of fuels sold in Bulgaria, Moldova and Georgia subsidiaries between 2012-2017**

**13.6** **Millions tones**
**sales of petroleum products in Romania between 2012-2017**



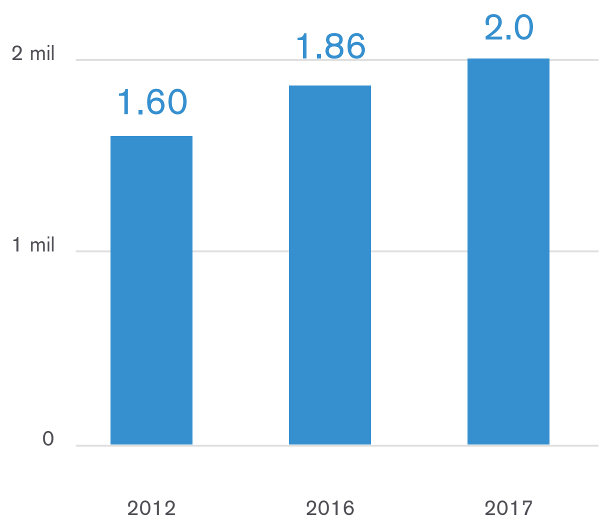


## RETAIL AND MARKETING INITIATIVES

- Maximize sales across profitable consumer channels to achieve optimal financial results;
- Maximize sales by involving filling station Dealers into the sales process, targeting new customer segments;
- Actively investing in communication & loyalty programs for customers in order to increase their satisfaction (marketing campaigns, brand awareness);
- Development of services within non-fuel sector (gastro, new additional services in stations, such as mobile/card payment at the pump, delivery services, electric car charging points, car wash);
- Improvement of main business processes by increasing operational efficiency at organizational level (supply chain & logistics, retail operation models, B2B and back office sales).

## RETAIL AND MARKETING KEY ACHIEVEMENTS IN 2017

As part of the strategy initiated by KMGI Group in 2012, the retail segment has recorded a constant growth, both in Romania and in the Black Sea region. On the local level, the volume of sold fuels (petrol, diesel, LPG) has increased from 1.6 million tons in 2012 to approximately 2 million tons in 2017 (+7% over 2016) , supported by a 9% increase of the network - up to 1.028 distribution points and 243 LPG stations.




The progress was supported by continuing the program for extension of the fuel distribution network, by completing the rebranding of the Rompetrol stations but also by consolidation of the Hei and Fill&Go brands.

The Bulgaria, Moldova and Georgia branches achieved over 4.2 million tons of fuels sold from 2012 to 2017. The sales volume recorded last year was triple, as compared to the one in 2012, increasing by 9% as compared with the one in 2016 , in the context of aligning to the Group standards launched in 2012, along with the introducing of the new concept of the Rompetrol stations.

The networks for distribution of the fuels produced by the Petromidia refinery in the 3 states of the region included 215 stations at the end of last year, by 20% more than the figure in 2012. Recently, the branches in Bulgaria and Moldova have celebrated 15 years of activity, during which they have become important employers (850 employees) and supporters of their local economies, their contribution to the state budgets amounting to approximately USD 1.63 billion (87% during the 2007-2017 period).

The Group is currently the largest petroleum product supplier in the Republic of Moldova, with an estimated share of 48%, being at the same time an important market player in Georgia (19%) and Bulgaria (16%). The total Group sales of petroleum products in Romania for the 2012-2017 interval amounted to 13.6 million tons, from 1.9 million tons in 2012 to over 2.6 million tons last year (+3% over the 2016 indicator).
On the local level, the fuels obtained by the Petromidia refinery are mainly traded in Romania by the Rompetrol Downstream – the Group's retail division; the direct sales of refinery petroleum products reached 482,000 tons last year, a similar volume to the one in 2016, but over 60% higher than the one in 2012.

At the same time, the petroleum products obtained and delivered internally by the Vega Ploiesti refinery and the petrochemicals division recorded a growth last year, of up to 206,000 tons, a 9% increase over the 2016 level and by 64% over the results of 2012.




## CONSUMER MARKET IN ROMANIA

Romania is one of our main distribution markets. Having a great potential, we focused on building a premium network, providing quality fuels and services to our partners.

The current visual brand identity of the Rompetrol distribution network was developed in 2013, in order to reinforce one single and fresh image of Rompetrol in Romania and in the Black Sea region (Moldova, Georgia and Bulgaria).

Fuel consumption (diesel and gasoline) in Romania registered an increasing trend of over 17% (2017 vs 2012) in the last 5 years, total consumption in 2017 reaching around 6.8 million tons.

In 2017, there was no significant change in the operations of the main market players.

Last year, the Retail consumption increased, by about 8% compared with the previous year and with almost 13% over the value registered in 2012. This increasing trend was mainly due to the decreasing trend of pump prices for all products, determined by the drastic drop in international oil prices.

Retail represents the main market segment, with around 68% share in 2017.
In terms of products, diesel consumption maintained the previous years' trend, representing around 80% of total fuels consumed in Romania.

## ROMPETROL DOWNSTREAM RESULTS AND MAIN PROJECTS

Rompetrol Downstream, the local distribution company, operates over 700 retail distribution points including Rompetrol filling stations, Rompetrol Partner stations, Expres mobile stations and 9 and 20 cubic meters Fill&Go Fixed Units.

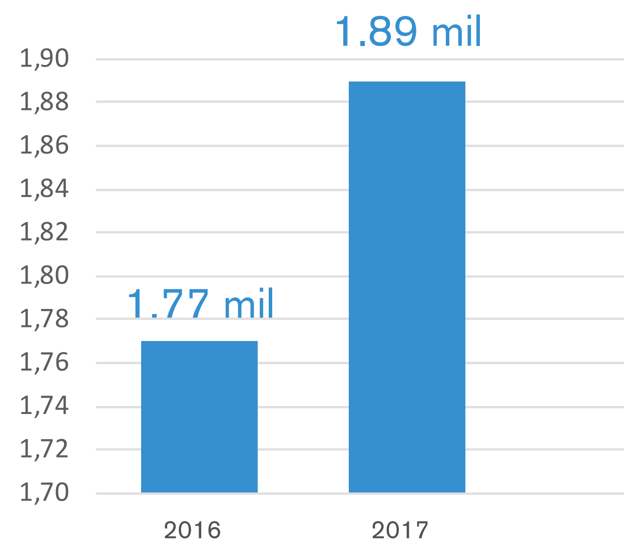
All Rompetrol stations have a premium design, combining the needs and expectations of our customers with the best technical solutions. The fuel stations include also 112 hei restaurants and shops designed in line with the retail concept.

The visual identity became the reference used for standardizing the construction of new filling stations and for the rebranding of the existing network.
We have continued to find the best solutions to improve our distribution stations, implementing modular filling units.

This type of station is defined primarily by the versatility of its assembly. It is a multifunctional construction which can be built having different levels of complexity and sizes of the buildings. It is also an economic station due to the technical structure and building technologies, "everything is closed" which reduces the cost of servicing of the technical parts and optimizes the quality of work.

Over the years, Rompetrol established partnerships with independent filling stations all over the country to develop the Rompetrol Partner network. Due to the investment in the retail visual identity and in equipment, these filling stations operate according to Rompetrol standards and deliver only fuels produced by the Petromidia refinery.

Rompetrol Downstream developed specific products able to meet the proximity-related needs, therefore the local distribution infrastructure enlarged rapidly.
To cover rural areas, the company first designed Expres mobile stations and then the Fill&Go Fixed Unit concept, tanks of 9 cbm and 20 cbm installed on the premises of car-fleet owning companies.
Rompetrol Downstream coordinates the activity of 6 warehouses located strategically in Arad, Craiova, Mogosoaia, Simleu Silvaniei, Vatra Dornei and Zarnesti, ensuring the fuel distribution flow countrywide.
Rompetrol Downstream, covering the Romanian market, reached record sales in 2017 of 1.89 million tons, increase by 7% against 2016 (1.77 million tons).




Also, the cost cutting measures and the continuation of the implementation of the new business model by Rompetrol Downstream during 2017 have allowed Rompetrol Downstream to obtain better operational results, generating a higher EBITDA by 5% versus last year.

# MAIN PROJECTS

## STATION REBRANDING

### NEW VISUAL IDENTITY, IMPROVING CUSTOMER PERCEPTION AND BRAND AWARENESS

The rebranding process started at the end of 2013 by opening the Otopeni filling station as a pilot of the extensive rebranding program to be implemented over the next 5 years. Applied to the entire distribution network, including the franchise stations – Rompetrol "Partener", the rebranding process consists of replacing the visual elements with the new Rompetrol identity, along with the creation of a modern architecture which uses innovative design and quality material and the implementation of a new shop concept.

By the end of 2017, the company completed rebranding the exterior of 124 stations and refurbished the shop area in 96 stations. In order to continue the alignment of the Dealer Owned Dealer Operated (DODO) network to the new Rompetrol image, by the end of 2017 another 79 DODO stations went through the rebranding process.

**126 stations completed rebranded**

**96 stations refurbished the shop area**




## HEI CONCEPT FOR GAS STATIONS' SHOP AND BAR

The second most profitable channel, after fuels, of Rompetrol Downstream in Romania was in 2017, the non-fuel segments, which includes national network of restaurant and shop convenience stores, reunited in HEI unique concept. The non-fuel segment registered a contribution of USD 17.5 million in 2017, higher by USD 2.2 million vs. 2016. 2017 was the year that non-fuel business reached a milestone, as 29% of fuel existing customers became also HEI restaurant users while 99% of the customers at the pump were also buying from the shop, reaching the highest conversion rate 29% in Gastro (vs. 24% last year) and 99% in Shop (vs. 91% last year).

2017 vs. 2016 total network, dry sales increased with 18.8% in contribution, as the corroborated result of network development, marketing activities and constant retail activities. In 3 years, HEI network grew from 80 to 121 points of sales, along with HEI rebranding process.

The effort in 2017 was concentrated in increasing operational efficiency for faster services in HEI restaurants and shops; furthermore, product constant development assured retaining existing clients and recruiting new ones in our stations.

The gastro portfolio was structural strengthen by new competencies and investments and also complimented with creativity in receipts and communication to satisfy customers' tastes and needs.

HEI restaurants and shops are combining freshly cocked products like sandwiches, salads, fruits, pastry with hot and cold drinks: coffee products, smoothies or even freshly cut fruits. Our range of packed products sweet or salty is addressing long trips needs or midnight craving as we are open to our customers 24/7.

Another important milestone in 2017 was the opening of a HEI shop outside the Rompetrol gas station network. HEI restaurant and shop was opened in September in an office building in Bucharest, as a statement that food and offer in gas station has products as appealing and fresh that can challenge everybody in the category.

HEI promotes healthier meals, even in a hurry and with no compromise on quality, showing respect towards customers, every time they stop in HEI restaurants and shops.

## DEVELOPMENT OF THE RETAIL NETWORK IN ROMANIA

By the end of 2017, 5 new stations were open, of which three in Bucharest generating an EBITDA of USD 5.3 m. The structure of the stations keeps the defining elements of the new distribution concept, namely the new visual identity elements (Rompetrol logo), the arrangement of the station's interior and the use of quality materials in a modern design.

The new Rompetrol station is equipped with fast-fueling pumps which include multimedia systems, has a large truck parking, an LPG skid, Wi-Fi services and a special space for smokers. It uses has a modern LED lighting technology that enables low power consumption.

In order to increase retail market share, the company will fully implement the ambitious strategic project of 96 new filling stations in premium locations in Romania in the next 5 years.
The rebranding of Rompetrol "Partener" network will contribute to the consolidation of the Rompetrol brand image and value by providing the same customer experience across all branded stations.

## CHANGE FOR GOOD INITIATIVES AND RESULTS

Change for Good Program launched in 2014 was extended in 2015 with the Transformation Program by including new optimization measures and governance mechanisms that continued with Mission 2020 Program in 2016 setting our Group target (USD 200mthreshold net result) to be achieved by 2020.

The Mission 2020 Program goal is to become a leader in the Retail market in Romania and other countries of presence through providing best quality products and services for KMGI's clients.

The Mission 2020 Program was extended in 2017 through a Core Business SWOT Analysis, enabling to identify and engage in Strategic Operational focus areas, to further maximize the Group profitability (having in Rompetrol Downstream a positive impact in 2017 EBITDA of USD 13.85 m).

At the end of 2017, Rompetrol Downstream was operating 807 fuel distribution units in Romania, including company-owned gas stations, Rompetrol "Partener", Rompetrol Express stations – small distribution points for rural areas, Fill&Go Fixed Units of 9 and 20 cubic meters.

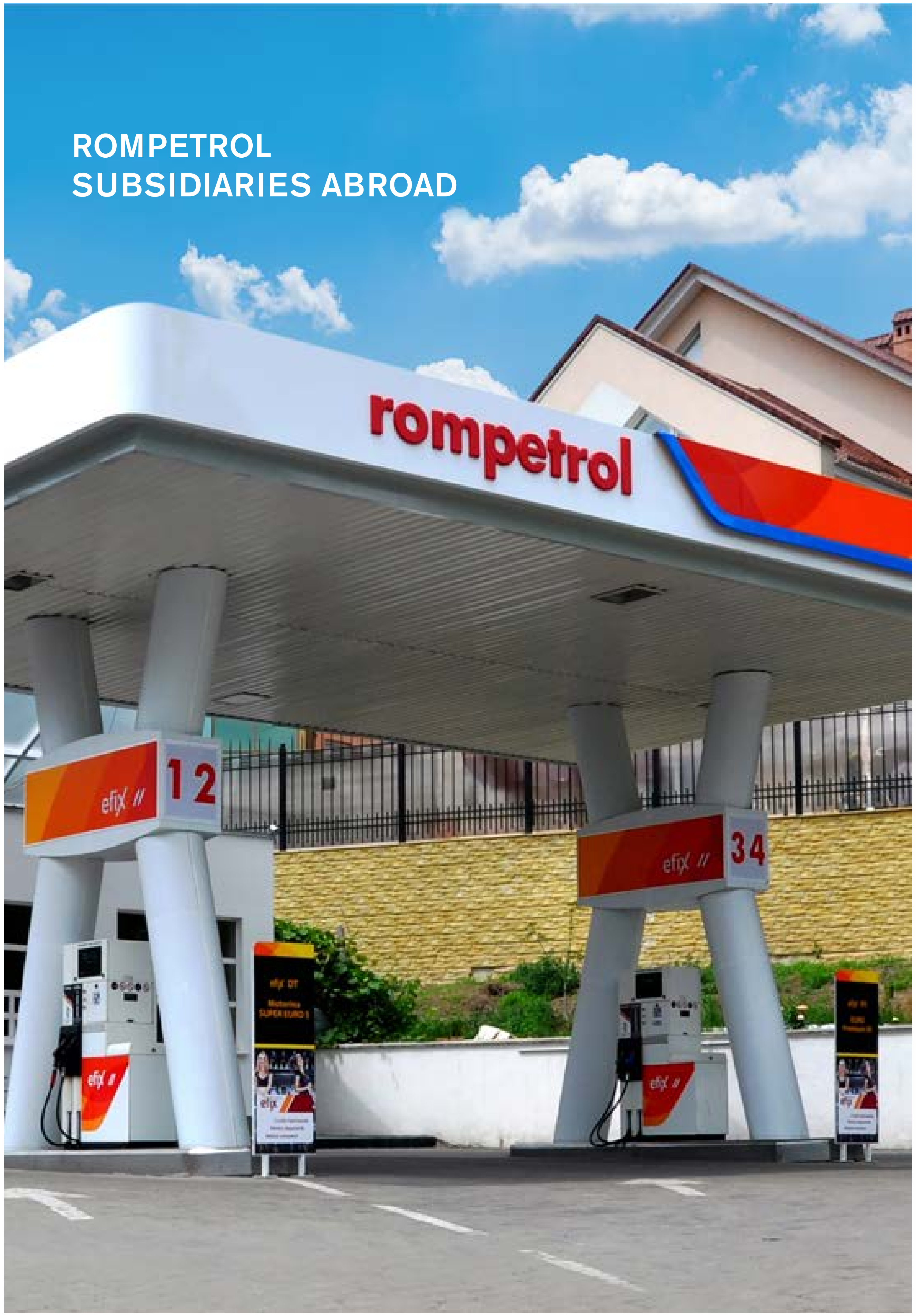
The company has 6 regional storage facilities all over the country (Arad, Craiova, Mogoşoaia, Simleu Silvaniei, Vatra Dornei and Zărneşti) and one on the premises of the Petromidia Refinery.

## PLANS FOR 2018

- Implement new strategic initiatives as a differentiating element from the competition
- Open new locations to seize more from the market potential
- Continue the implementation of a new business model in order to better exploit local opportunities
- Analyze and improve existing internal processes on a constant basis, as a consequence of understanding the current situation and market trends
- Attract new customers by improving, developing and energizing non-fuel sales
- Continue network rebranding in order to increase and consolidate brand power



# ROMPETROL SUBSIDIARIES ABROAD






## ROMPETROL MOLDOVA

**Rompetrol Moldova** operates a network of 79 stations

since **2002** more than **700** employees

**35 affiliated** shops and a fuel depot located in Chisinau

**2006** began developing system, the retail segment

**4** dedicated LPG filling stations

**2012** implement an integrated management system

Rompetrol Moldova opened 7 new filling stations in 2017, closing the year with 83 filling stations vs. 75 in 2016 and besides these, 25 gas stations were newly rebranded. The new stations were upgraded to the new premium retail distribution concept, characterized by the new elements of visual identification of the Rompetrol brand, quality of the materials and a different architecture/interior and exterior design of the station.

Due to these investments, the company had an increase of sales in the retail channel by 7% and by 24% in the Wholesale channel, which generated a total increase of volumes by 18% in 2017 vs. 2016. These achievements brought Rompetrol Moldova the position of market leader with an estimated retail market share of 23% and an estimated total market share of 48%.

All the fuels sold across the Rompetrol local network are imported exclusively from Petromidia refinery.
The company also aims to increase revenues from non-fuel sales related activities (shop), thus it invested in the opening of 15 stores to serve the stations. In 2017, shop revenues increased by 57% vs 2016, to USD 5.8 m.

The company also started in 2017 the implementation of SAP Project in the financial field with the final boundary and go live starting to January 1st, 2018 as well as some operational projects for the gas stations network optimization (e.g. 2 low performing stations were replaced with new high potential locations - Burebista & Todiresti) and increase in shop sales (implemented a new remuneration model for the gas stations cashiers). Rompetrol Moldova has the largest coverage in the city of Chisinau, with half of the total stations located in the capital, being the leader in this area compared to other major players on the petroleum products market in the Republic of Moldova. The total number of cars registered in Chisinau in 2017 is approximately 49 % of the total in the country.

Rompetrol Moldova also owns 2 Depots:

1. Chisinau Depot (5,000 MT capacity) – located in Chisinau and used for petroleum products;

2. Tirnova Depot (1,000 CM capacity) – located in the northern part of the country and used for LPG.
Rompetrol Moldova has been present on the local market since 2002 and has more than 700 employees.
In 2012, Rompetrol Moldova became the first local oil company to implement an integrated management system. The certificates were obtained for compliance to international standards ISO 9001:2008 (quality management), ISO 14001:2009 (environmental management) and OHSAS 18001:2007 (health management and operational security).

PLANS FOR 2018

- To finalize the Network Master Plan;
- To open 3 new DOCO stations;
- To continue rebranding of the remaining 15 stations (+8 stations in 2018, and +7 stations in 2019);
- To start project "Buy-out DOCO stations" from our existing partners (30% of controllable sales and decrease heavy dependency from partners);
- To develop non-fuel sales (including implementation of the HEI concept and refurbishment of old shops);
- To finalize ORPAK or alternative Retail Solution for full integration of the network with the requirements from the Reporting, Loss control and Commercial departments.

# ROMPETROL BULGARIA

**Rompetrol Bulgaria**
**EAD was established in December 2002**

**5,800 cu.m**
**storage facility in**
**Ruse**

**54**
**fuel stations**

**A Biodiesel Blending**
**unit was installed within the company depot in**
**Ruse**

Rompetrol Bulgaria EAD was established in December 2002 and is specialized in the distribution of fuels and petroleum products through a current network of 54 fuel stations. The company sells European-standard quality fuels produced at Petromidia refinery.

The subsidiary operates a 5,800 cu.m. storage facility in Ruse, along Danube river, which uses the latest technologies in the field of oil product management and environmental protection. A Biodiesel Blending unit was installed within the company depot in Ruse. The purpose of this installation is to blend the diesel with bio component locally. The rail, naval and road loading facilities of the terminal ensures smooth wholesale operations throughout the Bulgarian market.

The Bulgarian fuel market is highly competitive, price being the key factor for Bulgarian fuel consumers and compelling marketing initiatives bring significant value to the company offer. Despite the challenging market environment, including the developments of the international market and local specifics, in 2017, Rompetrol Bulgaria showed remarkable positive results, including:

- Maintaining the historically high total market share in 2017 of 16% (compared to 6% in 2012)
- Maintaining the retail market share of 3%
- 7% growth in overall sales volumes reaching record high of 479 kt
-

Rompetrol Bulgaria strategy for development includes a plan for optimization and incremental growth of the retail network. As part of the implementation of this plan, 2 new stations opened, 16 more stations rebranded (29 in total) and 3 pilot stations under HEI brand for interior rebranding were finalized. Besides this, also as part of the strategy to expand and increase flexibility, Rompetrol Bulgaria operations were started trough a new depot in the Southern part of Bulgaria.

The main pillars of the marketing plan of Rompetrol Bulgaria for 2017 were corporate communication, communication to Retail segment and targeted presentation to Business audience. Corporate communication platform was based on the progress of the rebranding and development campaign.

Opening events of flagship, new and rebranded sites were supported by press releases to inform the broad audience on Rompetrol Bulgaria achievements. Rompetrol Bulgaria focus on retail included two massive retail marketing campaigns for individual customers – one executed in summer and one – in winter.

The company organized local and regional promotions to support specific locations on-need basis. The communication of all campaigns was executed via outdoor, radio and Internet media to transfer company messages to target group.

In 2017 Rompetrol Bulgaria launched its Business communication program targeting the major business sectors of significant potential – Agro, Transportation and Logistics. The company took part in the most important industry events/ exhibitions for these segments – represented with branded booths and sales force to meet directly with customers and build further brand reputation among this audience.

Active marketing communication and ambitious development plan within the last years allowed increase of brand usage with 5% and Top-of-mind brand awareness with 2% compared to 2016, already positioning the company on the map of petrol brands in the mind of the customer.






Rompetrol Bulgaria also reports a significant increase in EBITDA despite the challenges in the local and international markets, the company recorded USD 1.3 m EBITDA in 2017 higher by USD 2.3 m versus previous year.

In 2017, Rompetrol Bulgaria improved its total sales for the fourth consecutive year, reaching 479 kt, higher by 7% vs. 2017 and almost triple vs. 2012. With this increase in sales in 2017, Rompetrol Bulgaria achieved the highest result in in the last 10 years.

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PLANS FOR 2018

At the end of 2017, Rompetrol Bulgaria operated a network of 55 stations. The main strategic goal for 2018 is to develop the network and further strengthen its position in the market, arriving to a retail market share up to 12% till 2023 from 3% in 2017.

The company has ambitious plans to open new stations over the following couple of years – at least 10 gas stations each year, to continue interior and finalize exterior rebranding and implementation of "HEI" concept, to increase also the non-fuel sales in the gas stations.

# ROMPETROL GEORGIA

**Rompetrol Georgia**
high quality fuel distributor

Tbilist depot - storage capacity from **6,500 to 9,550** tones

network of **76 filling** stations

Fill & Go

**Fill & Go**
pay-at-the pump system, an innovative solution on the local market

**23,500 cbm**
the depot in Batumi port

renewed certificates ISO 9001,ISO 14401 and OHSAS 18001

Rompetrol Georgia positioned itself on the market as a high-quality European fuel distributor, providing Euro 5 products from Petromidia refinery. Georgian fuel market is actively increasing, in 2017 and 2016 total import reached level of 1mt.

Rompetrol Georgia covers approx.19% of total market and by the network development and rebranding of 45 stations Rompetrol Georgia managed to increase Retail market share from 13.4% in 2016 to 17.4% in 2017. Operating a network of 76 stations, Rompetrol Georgia managed to increase the retail sales by 7% vs. 2016.

These results were based on the quality of the fuels and services introduced by Rompetrol Georgia on the local market starting 2017, customer loyalty card introduction.

Apart from these new products and services, the company added 13 new stations with the new Rompetrol logo to the network at the end of 2016 and the beginning of 2017.

Also, consolidated government tenders won by Rompetrol Georgia contributed to the company sales (26%), being the third consecutive year of winning the Governmental tender for fuel supply.
In 2017, Rompetrol Georgia renewed certificates for the following standards: ISO 9001, ISO 14401 and OHSAS 18001.

Apart from the fuel network, the company carries out wholesale activities through the depot in Batumi port (23,500 cbm), as well as through Tbilisi depot which has been completely modernized, increasing the storage capacity from 6,500 to 9,550 tons.

**PLANS FOR 2018**

- Improve control mechanisms throughout the network, considering the strategic objective to reach market share of 23% in the next 5 years;
- Increase retail sales share in total sales, via further network development of 7 stations;
- Increase W2C channel sales by 17 kt (i.e. +37%)
- Finish Tbilisi Depot compliance and renovation project;
- Perform Organizational efficiency project, optimizing the staff cost and increase efficiency by bringing added value to smooth and transparent process;
- Launch the Non-fuel revenues initiative by opening first company owned shops (pilot project).





# DISTRIBUTION IN THE WESTERN EUROPE

Second company in the Languedoc - Roussillon region (France)

**2,450 tanks** in the storage on business

Approximatively **2,3** billion euro turnover

35 loading sites supplied by sea, road and oil pipeline

2,500,000 m3 of petroleum products brought to market each year

75 road tankers (owned & rented) ISO9001 certified & fully compliant with the ADR standard

100 gas stations under Dyneff and Rompetrol brands

75 tankers chartered annualy

2 wholesale agencies in France (Montpellier) and in Spain (Gerona)

11 retail agencies in France and 2 in Spain

Access to 96% of customers connected to natural gas network in France.

Dyneff is one of the leading fuel distributors in France and Spain. A major trader, operating significant capacities of import, storage and distribution in ports such as Port La Nouvelle, Barcelona, Valencia, Bilbao, Bordeaux and Le Havre.

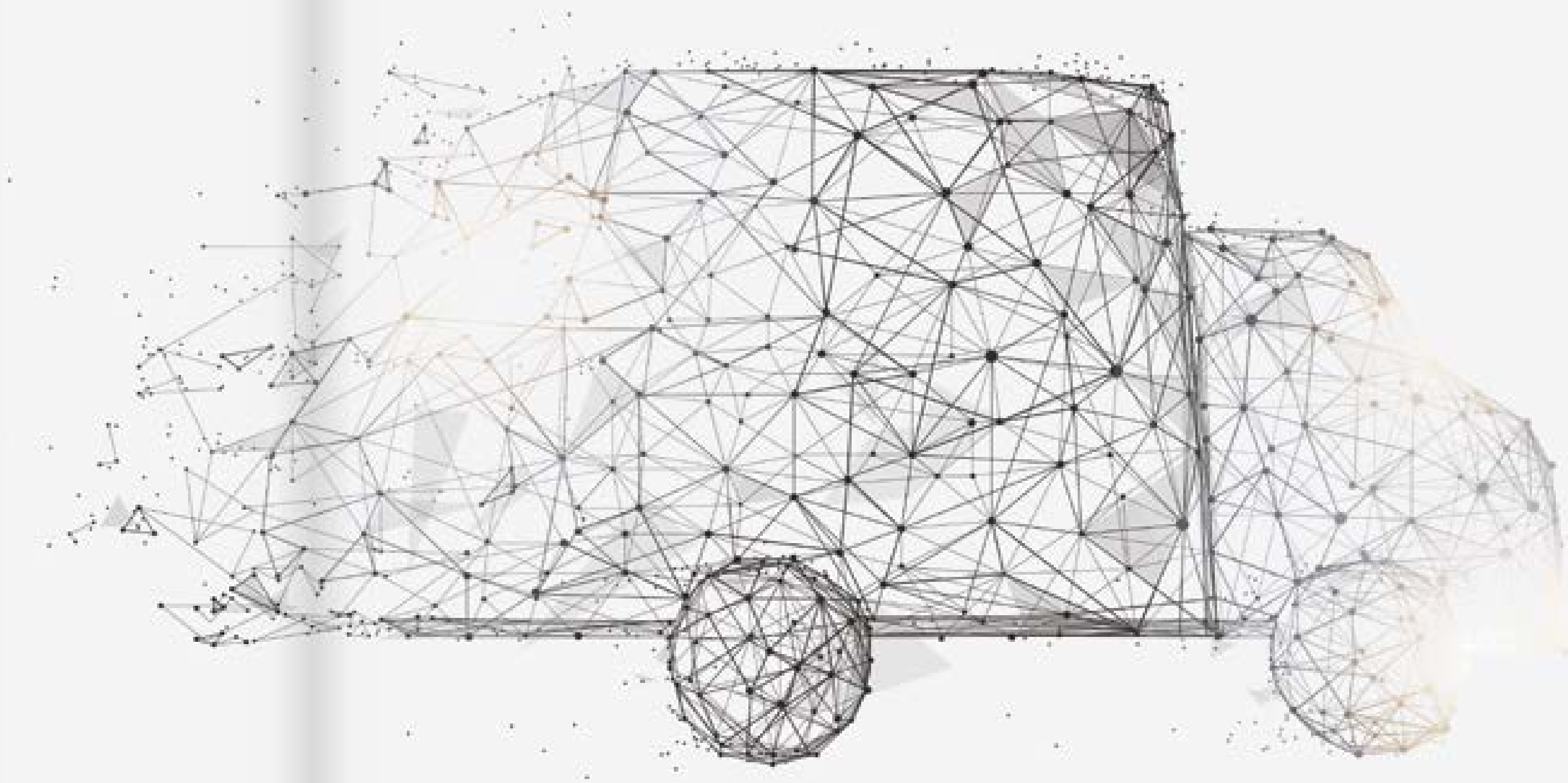
The company sells more than 2.5 million m3 of petroleum products every year, through 3 distribution channels: filling stations, a network of commercial agencies, and two wholesale agencies (Dyneff covers three quarters of France, as well as Northern and Eastern Spain).

Dyneff offers a full choice of motor fuels, biofuels, heating fuels, supplementary products and services that fulfil all the market requirements.
The company became a major subsidiary of KMG International in 2006.

The company has evolved from an oil products distributor to an energy supplier in a number of fields. In July 2015, Dyneff obtained the license of a natural gas supplier for individuals and companies in France.

The objective of KMGI for Dyneff is to become a development platform in Western Europe, benefiting from extended access towards sources of supply and from shareholders' strategic support necessary for continuing and expanding its operations in the energy sector.

# 08 | INDUSTRIAL SERVICES & UPSTREAM






# INDUSTRIAL SERVICES AND UPSTREAM

Industrial Services Business Unit delivers crafted industrial solutions for the entire oil and gas industry. It gathers reputable companies with Romanian origins that contributed to transform the unit into an engineering powerhouse.

From complex capital projects engineering, procurement and construction management to multidisciplinary maintenance and valves manufacture, we deliver cost-effective solutions to our clients at their wells, in their refinery and all across their distribution networks.

More than services, we offer the brainpower of a team of experts focusing on identifying and delivering tailored strategies, safety, trust and value creation for our clients.

Adapting to the European economic situation, the Industrial Services embraced a strategic approach, diversifying Well Services operations and increasing the portfolio of activities connected to Rominserv, the Group's general EPC contractor.

The activity carried out by the service companies represents an important contribution to the development of KMG International, helping to increase the efficiency of its operations, as well as a profitable alternative to external companies.

# ROMINSERV

ROMINSERV is a leading Romanian company dedicated to integration of industrial projects, industrial maintenance and management services, technical upgrade and technological development being able to provide integrated professional solutions to its clients.

Rominserv, the Group's engineering company, has completed 114 projects during 2017. From these 114 projects, 105 projects have been developed within Rompetrol Group and 9 external projects (mostly in Kazakhstan). Out of the total of 114 projects, 110 projects were completed within time and budget. Revenues increased by 12% versus last year, mainly from CAPEX projects activity.

In 2017, Rominserv succeeded to ensure to Petromidia Refinery a mechanical availability of 96.5% approximately equal to those of 2016 (96.9%), being an outstanding rate comparing to the peers, meaning refineries from the Central and Eastern Europe. Also, the mechanical availability of the Romanian Fuel Distribution Network realized by Rominserv in 2017 increased to 99.7% vs 95% in 2016.

PLANS FOR 2018

- Keep the increasing trend of Mechanical Availability and meet 2018 target (96.7%);
- Focus on Capital maintenance and solutions that deliver expenditure optimization and cuts of overhead;
- Build and start a new contract with Rompetrol Bulgaria with the aim of increasing the availability and quality of services in Bulgaria gas stations network;
- Build and start a new contract with Rompetrol Gas for the logistic depots;
- Increase revenues from 3rd party business.






# KMG Engineering

Provides industrial services know-how in Kazakhstan. Since the beginning of its activity and up to 2013, the company carried out construction and engineering works (with the assistance of the Rominserv S.R.L. Engineering Department) within the framework of the Project for the revamping and modernization of important units at Atyrau Refinery, Kazakhstan.

Another important project of the company was the contribution as an associate to the execution of construction works within the framework of the Investment Project Modernization of the Pavlodar Oil Chemistry Refinery (POCR).

In the last years, efforts were made to transform the company into a comprehensive organization for executing construction and assembling works within the territory of Kazakhstan. This is a part of the process of outsourcing support activities in a single service company within the JSC KazMunayGas NC group of companies.

# Manufacturer of industrial products

## ROMINSERV VALVES IAIFO

Rominserv Valves Iaifo is one of the biggest producers of cast iron and steel valves and safety valve springs in Romania.

Ever since its establishment, in 1969, the company has specialized in the production and sale of a wide range of cast iron and steel fittings, used in the oil and gas industry, in refineries, the petrochemical field, water and steam transportation, as well as in other specific areas of activity (including the nuclear field).
The company is exporting annually around 35% of its production to Germany, Czechia, Italy, France, Austria and Bulgaria. Rominserv Valves Iaifo also continues to be an important partner in Romania for all major oil and gas companies.
In 2017, Rominserv Valves Iaifo benefited from an ascending market trend, its turnover increasing by 42% compared with the year 2016 (USD 5.7 million vs. USD 4 million) due to significant demand increase from the traditional clients (especially OMV Petrom).
One of the 2017 achievements is the development of new valves with a pressure of 420 bars, final customer being OMV Petrom.

In 2017, strict cost control measures continued to be applied to the company activity and personnel to restructure the company and to decrease operational costs. The personnel restructuring process was finalized (64 people left) with a reduction in the staff cost of 41,000 $/month.

PLANS FOR 2018

- Identify main type of valves outside current range of products that are requested by existing, new and potential clients to increase the sales;
- Reduction the costs by monitoring the utilities consumption, by renegotiation the prices of raw materials and reduction the stock of finished products;
- Optimize the assets by rental and sale of unused buildings and areas;
- Prepare and estimate a Business Plan/Capex need to modernize the factory.



KazMunayGas International

## PALPLAST

Palplast S.A. is a Romanian company, established in 1994, located in Sibiu.
The location of the production facility is strategically selected for supply and distribution efficiency.
With over 15 years of experience, Palplast is one of the top producers of HDPE pipes and fittings for water, natural gas, irrigation, sewerage and telecommunications networks.

In 2017, Palplast revenues were lower with 8% compared with 2016 due to reduced market demand of pipes, following a very low absorption of European Union funds, the main financial source of public projects (water, gas, sewerage, irrigation networks). Despite this decrease, the company consolidated its market position, the market share increasing from 6% in 2016 to 7% in 2017.

In 2017, Palplast started to export HDPE pipes and fittings in new markets from neighboring countries of Romania, thus in 2017, 5% of revenue was provided from these exports.

Palplast also continued to reduce the energy consumption and technological waste on production process and to recover in the future the profitability indicators having information from the market that the demand will return to normal conditions in the first months of 2018.

PLANS FOR 2018

Continue the consolidation process on the pipe and fittings market in Romania and the neighboring countries (Moldova, Bulgaria, Ukraine, etc.) and to increase the market share;

- Start the production of new types of pipes and fitting;
- Increase the company's profitability by reducing technological energy consumption by 16% and technological waste by 20%

# Well Services

## ROMPETROL WELL SERVICES

Rompetrol Well Services (RWS) is one of the leading companies on the specific market segment in Romania. With an experience of over 60 years, RWS offers a wide range of specialized services for the oil and natural gas wells that include cementing, sand control, stimulation, testing, slickline, nitrogen services, tubular running and tools rental.

Services are provided to oil and gas operators and drilling contractors, focusing on cementing, that represents 45% of total revenues. Over the last years, the Company provided its services to over 40 oil companies and drilling contractors in Romania, Eastern Europe, Kazakhstan, Iraq, Jordan and Turkey.

In 2017, Rompetrol Well Services increased the level of activity and the capacity utilization (61% capacity utilization of pumping units) following a growing trend of the upstream activity of the main domestic customers starting the second quarter of 2017.

Consequently, Rompetrol Well Services financial performance improved significantly versus previous year, EBITDA increased more than 9 times compared with 2016 (USD 1.7 million vs. USD 0.2 million). Also, the optimization measures started in 2015 and fully implemented by the end of 2016, helped in achieving positive results in 2017.

In 2017, the market share for cementing services increased to 93% vs. 80% in 2016 and the market share for stimulation services increased to 36% vs. 28% in 2016.
Also, in the business development area some important achievements were realized in 2017:

- Extended the provision of cementing services in Ukraine
- Received the qualification for cementing services from Kuwait Oil Company
- Contracts signed with two new major domestic customers



PLANS FOR 2018

- Increase Capacity Utilization for Pumping Units to 75%;
- Optimize mixing equipment and implement new simulation software for cementing operations;
- Maintain domestic market share for cementing services over 80%;
- Increase domestic market share for stimulation services to 40%.

# 09 | SUSTAINABILITY

KazMunayGas International

# SUSTAINABLE DEVELOPMENT GOALS

In late 2015, the United Nations adopted 17 sustainable development goals, which build on the preceding Millennium Development Goals and seek to tackle the world's economic, social and environmental issues by 2030.

Achieving the sustainable development goals (SDGs) will require action by governments, non-governmental organizations and the private sector. Companies can contribute to the achievement of the SDGs by reducing the negative impact of their operations and seeking to contribute positively to the environments and communities in which they operate. As a responsible corporate citizen, KMG International is committed to leave its mark, by harmonizing the 2030 Agenda principles with its long-term sustainable development strategy. The goals highlighted below are closely related to the topics that were identified as most relevant or prominent for KMG International in 2017.

**GOOD HEALTH & WELL-BEING**

Health and well-being represent top priorities for KMG International, with regard to both employees and the communities we operate in. Not only do we have strict health and safety work procedures in place, but we also carry out customized internal well-being programs addressing emotional and social, physical and financial well-being. Furthermore, KMG International has been actively involved in supporting the Romanian healthcare system, through its long-standing partnership with the Mobile Emergency Service for Resuscitation and Extrication (SMURD) & the Inspectorate for Emergency Situations (ISU), as well as through its consistent investments in healthcare-related projects across the country.

**CLEAN WATER & SANITATION**

Our sustainable development plans place high emphasis on preserving water and managing its use in a responsible and sustainable way. We invest in new technologies and constantly improve our processes to use this valuable resource more efficiently. Reducing water consumption, wastewater outputs and discharge, is an important part of our environmental standards.

**QUALITY EDUCATION**

Investing in education, personal and professional development is embedded into our business strategy and part of our mission to nurture the growth of our employees and communities. Beyond our annual internship program, which has been running for more than a decade, we support organizational growth through dedicated development, life-long learning and career progression programs, along with investments and sponsorships addressing community education needs

**AFFORDABLE & CLEAN ENERGY**

By environmental policy, we undertake reducing consumption of resources by using them in an effective way and by changing old, high energy consumption equipment with modern low-power equipment. Moreover, we have taken on implementing new lower-carbon technologies and sources of green energy (electrical car charging points in gas stations and photovoltaic panels).



KazMunayGas International

**DECENT WORK & ECONOMIC GROWTH**

Our activities create jobs, use local suppliers and support local communities and we contribute to economic growth through investments and by paying taxes to local governments. We assess those we work with to ensure they adhere to principles laid out in our Code of Ethics and Conduct. We have social investment projects to help consolidate local communities and facilitate their growth.

**CLIMATE ACTION**

We continue to work to manage greenhouse gas emissions from our operations, in strict compliance with national and international regulations. Our efforts are focused on reducing our environmental footprint year on year and we are proud of our achievements in this regard. For example, in 2017, CO2 emissions for our Refining Business Unit decreased by 5% compared to the previous year.

**INDUSTRY, INNOVATION & INFRASTRUCTURE**

KMG International is constantly investing in the development of the Group's operations, in view of building resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Under KMG International ownership, Petromidia Refinery has become one of the most modern refineries in Eastern Europe, accounting for more than 40% of Romania's current refining capacity.

**LIFE BELOW WATER**

Being aware of our responsibility when it comes to preserving biodiversity, the Group gives special attention to the Black Sea region, where Petromidia Refinery is situated, and cares about the very active wildlife populating the area. For each new project the impact of the refining activity on biodiversity is analysed and assessed.

**RESPONSIBLE PRODUCTION & CONSUMPTION**

We have codes, policies and assurance processes to help define how we can protect the environment, respect our stakeholders and communities and cause no harm to people. Energy efficiency is carefully considered in the life cycle of our products, from managing energy consumption in their production to providing customer advice on optimum fuel efficiency.

**PARTNERSHIP FOR THE GOALS**

The principles for sustainable development set in the 2030 Agenda have been undertaken by the Group and they are embedded into its business principles and strategy. Moreover, KMG International is one of the founding members of the United Nations Global Compact local network, whose president for a two-year term, staring 2017, is the Group's Sustainability & Communications Manager.

# COMMUNITY

WORKING WITH AND FOR THE PEOPLE AROUND US.

We understand the value of partnering with the communities in which we operate, and our aim is to contribute to the balanced development of all facets of human life, including health and well being, culture and education, skill development and leadership, or social and environmental stewardship.

Whether we are looking for young talents to join our team (through our annual Internship program), raise awareness on environmental issues with the help of our employees (who participate in the Rompetrol Run and Care fundraising races, tree planting campaigns, specific environmental clean-up actions), develop complex cultural programs (supporting George Enescu International Festival and Contest, bringing the Kazakh Film Festival to Romania), or support SMURD, we do it because we understand that only through a direct and unhindered attitude one can establish itself as a true member of the society and a sustainable partner.

# OUR PROJECTS

A DEDICATION TO OUR COMMUNITIES
We strive to proactively be involved in the community in a variety of ways and respond to questions and concerns in a timely and transparent manner.

This is why we work closely with communities, in order to find out their needs and help them succeed. Our projects aim at leaving a mark on the communities and making a change, whether it is about health and well being, culture and education, skill development and leadership, or social and environmental stewardship.

## Health and Wellbeing

### SMURD PARTNERSHIP FOR LIFE

We continue to support the Romanian healthcare system through our 10 years' partnership with SMURD & ISU.

Throughout the years, the Group has provided JetA1 fuel for aero-medical helicopters, uniforms for volunteers, medical equipment, as well as investments in the rehabilitation and endowment of various medical facilities across the country and Emergency Situations training centers in Romania. Over the 10 years of solid partnership, KMG International has invested more than USD 4 million in the public healthcare system, so that members of the communities where the Group operates in to benefit from quality medical services.

During 2017, we donated medical equipment and offered financial support to several health and safety facilities:
- Medical mannequin for first aid training in offering birth assistance donated to ISU Dobrogea;
- Mobile ECMO device (Extracorporeal Membrane Oxygenation) donated to Floreasca Emergency Hospital in Bucharest, a valuable asset used by emergency and intensive care services. The medical equipment improves cardiac and pulmonary functions for patients in the intensive care unit and it is also very useful when being transported by SMURD ambulances or helicopters;
- Regional training center for qualified first aid and extrication in Constanța, set up by KMG International, where paramedics from Constanța, as well as Călărași, Tulcea and Ialomița counties, are being trained;
- Equipping the ISU / SMURD Bihor crews with a unique IT system in Romania to help with the decision-making process during emergency and extrication missions;
- Refurbishing the space where the Integrated Dispatch Center of ISU/ Neamț County Ambulance operates and equipping it with furniture, electronic equipment, modern IT and communication systems for dispatching emergency calls and coordinating intervention actions;
- Financial support from KMG International for the construction of the Oradea Emergency Hospital heliport.

The total value of the endorsements offered by KMG International exceeds 1 million euros. We are highly proud of this partnership!





### ASSOCIATION FOR DRAVET AND OTHER FORMS OF RARE EPILEPSY

We have offered support to the „Association for Dravet and other forms of rare epilepsy", a NGO that aims to provide continuous support for the families with children affected by this kind of disease, support ranging from partial financial aid of the medical costs to different educational activities for the children at the day center and counseling sessions.

### HOSPICE – CASA SPERANTEI

HOSPICE Casa Sperantei offers both children and adults, who are diagnosed with an incurable disease, the possibility of being admitted in the accommodation facilities, the possibility of being visited at home, social assistance, psychological counseling, kinetotherapy sessions and other activities under the supervision of specialized staff in the day centers.

From 2013, KMG International and Hospice – Casa Sperantei have been partners in offering both children and adults better care and life conditions, developing together the infrastructure needed in order to do so.

### "BLACK SEA THERAPY CENTER FOR PEOPLE WITH AUTISM" FOUNDATION

In 2017, KMG International provided support to the "Black Sea Therapy Center for People with Autism" Foundation in Constanța, for the development of the foundation's projects in the local community. The foundation provides recovery and rehabilitation, personal development and integrated socio-educational and socio-medical services to 82 people in their day care center.

# Culture

### "GEORGE ENESCU" INTERNATIONAL FESTIVAL

The partnership signed in 2010 by KMG International and the organizers of the "George Enescu" Festival and Contest stands as a commitment to sustain the evolution of culture in Romania, with the participation of Romanian and international musicians.
The activities supported by „KMG International" within the 2017 edition of the Festival included its closing gala and the concert of the Royal Concertgebouw Orchestra Amsterdam which took place on September 24th. Part of the „Great Orchestras of the World" series, the Royal Concertgebouw Orchestra Amsterdam is considered one of the best orchestras worldwide due to its unique sound made possible with the help of the 120 artists from over 20 countries.

### THE KAZAKH FILM FESTIVAL

KMG International is actively involved in cultural programs and projects designed to promote the social and cultural values of Romania and Kazakhstan, both nationally and internationally. In this respect, bringing the Kazakh Film Festival to Romania was a very inspired idea, one appreciated by cinema goers. Taking into consideration the rich and proud history of Kazakhstan and its incredibly diverse population of over 130 ethnic groups, KMG International, together with the Embassy of the Republic of Kazakhstan in Romania, organized the Kazakh Film Festival in Bucharest, an event that greatly contributed to the cultural exchange between the two countries.






# Social & Environmental Stewardship

We strive to support social causes through a wide variety of events. Rompetrol Run and Care, our charitable cross reached its the fourth edition in 2017, to raise funds for "HOSPICE Casa Speranței" Foundation and the "Association for Dravet and other Rare Epilepsies".

Throughout the years, more than 3,000 KMG International employees, namely more than half of the Groups' headcount, donated time and effort to support various social, environmental, health and educational initiatives for the benefit of the community, such as M.A.M.E. Association or MagiCamp, NGO's that improve the quality of life for children with cancer and other serious diseases.

### CIVIL SOCIETY GALA

During our 15-year partnership, the Civil Society Gala and KMG International have supported the implementation of projects that changed lives, mentalities, expectations and attitudes, improving the overall well-being of countless local communities.

In 2017, the focus of the projects submitted was education and health, important issues that have been inscribed into KMG International's sustainable practices. Alexey Golovin, Vice President of KMG International awarded the winner of the edition, "Dăruiește Aripi" Association for its project to build a Pediatric Onco-Hematology and Rheumatology Section within the Constanța County – Day Care Center for FOCUS children. This is the only unit of its kind serving South East of Romania, were over 400 children were granted access to specialized treatment in 2016.

166 projects and programs implemented in previous years by 119 non-profit, non-governmental organizations, initiative groups and individuals were included in the 2017 edition of the Civil Society Gala competition.

### GREEN SPACES FOR LOCAL COMMUNITIES

Our employees' dedication to bring their contribution and leave their mark on their communities never ceases to bring us pride. One such moment was provided to us by 70 employees working on the Petromidia platform who decided to take their time and test their landscaping skills for Năvodari inhabitants to benefit from a new green area in the heart of their town.

## Sport

### SUPPORT FOR WEIGHTLIFTING FEDERATIONS

KMG International has been encouraging performance in sport, providing its support either through refurbishing or building sports centers for school children, or by supporting federations in sports like football, polo, tennis or judo. Although less known than the abovementioned, weightlifting is also on KMG International's radar, as the Group has been encouraging the development and high performance in this sport for several years know.

Stemming from the Group's belief in the close connection between business and sports, given the dedication and hard work required for success, KMG International decided to not only continue, but actually consolidate its support to the development and preparation of weightlifting athletes and coaches. While KMG International, through its Rompetrol brand, has been a constant supporter of Romanian, Georgian and Kazakh Weightlifting Federations, in 2017, the Group extended its sponsorship to federations in Bulgaria, Moldova and Turkey.

Furthermore, starting May 2017, the CEO of KMG International and the president of Kazakh Weightlifting Federation, Zhanat Tussupbekov, was elected vice president of the International Weightlifting Federation.




KazMunayGas International

## Our Partners

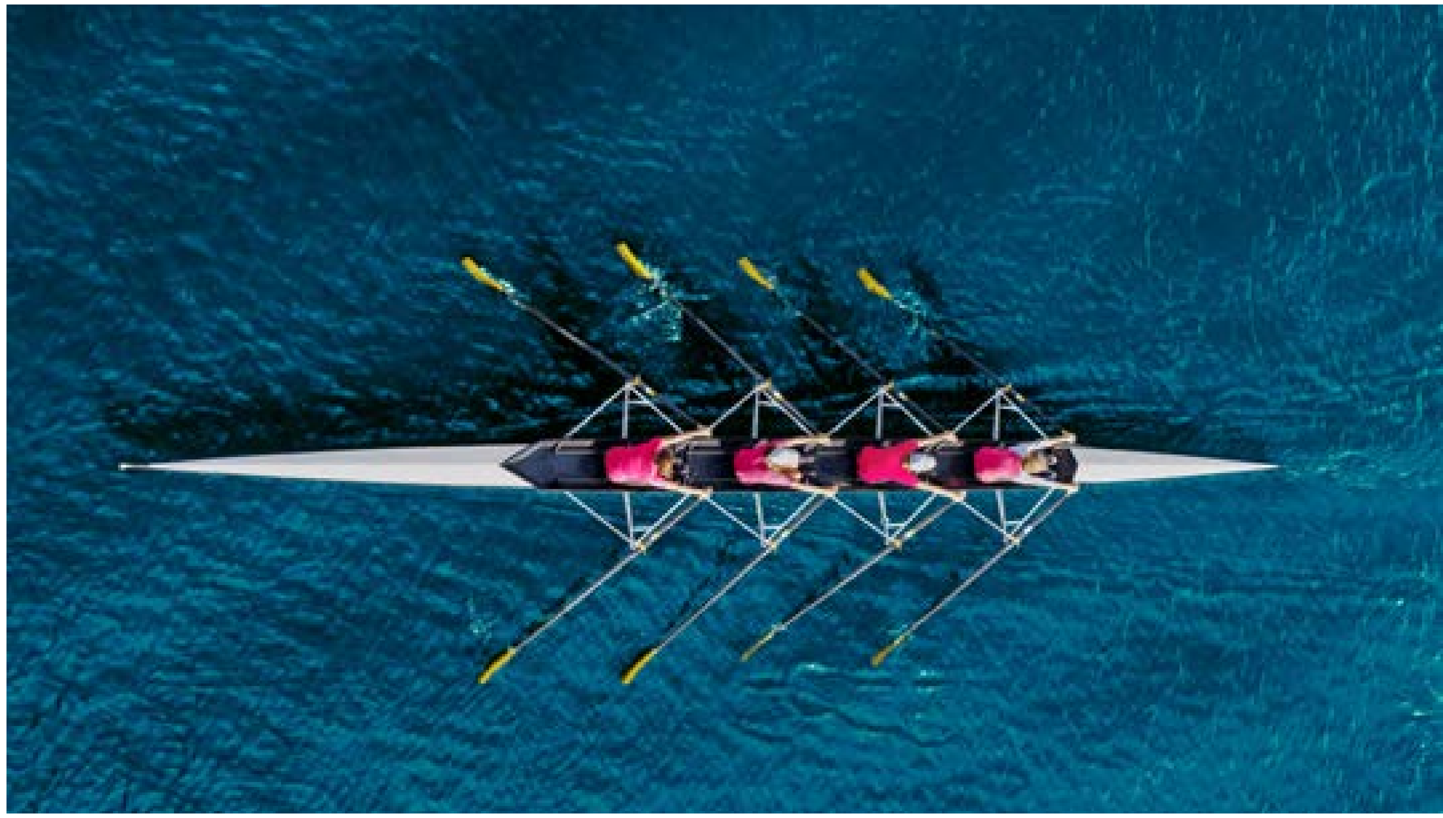
### PROUD TO SUPPORT EXTRAORDINARY PROJECTS

People represent the core of our business, whether it is our employees or the communities we operate in.

We are committed to being their trusted partner and contribute to their growth, as we recognize that thriving and resilient people are essential for a sustainable future.

In the past five years, we have collaborated with a large number of NGOs, non-profit organizations and associations, health and education facilities, reinforcing our constant effort to develop relevant community engagement projects related to education, culture, health and other crucial topics.

We maintain strong partnerships with: "George Enescu" International Contest and Festival, the Civil Society Gala, MAME Association, Hospice – Casa Sperantei, SMURD & ISU, Open Minds Association, Association for Dravet and other forms of rare epilepsy, Save the Children, Milvus Group Association, "Black Sea Therapy Center for People with Autism" Foundation and many more.



# PEOPLE AND SAFETY

The complexity of the refining industry involves a higher level of risk to health, safety and environment.

The safety of our employees and contractors represents a matter of utmost importance and it is an essential part of our strategy and the way we do business. KMG International continually evaluates its health and safety principles and procedures throughout all its operations to ensure that they are according to the best standards in the industry.

We strive to improve our results by applying a uniform occupational health and safety policy, both within the Group entities and in relation to our subcontractors. Our policies, procedures and practices support our commitments to human rights observance and create opportunities for each and every employee to be productive and secure and to develop professionally, regardless of gender, nationality, age or other factors.

## Welfare and safety

We're placing our staff above all
KMG International is a trustworthy worldwide partner, which recognizes that the success and strength of its business lies first and foremost with its staff. In order to keep it that way, the Group will promote the highest standards in Quality, Health, Safety and Environment.

This is done by establishing, implementing and maintaining a comprehensive QHSE Management system and by accepting the moral responsibilities of promoting and protecting the Health, Safety and Well Being of everyone involved in our activities, the employees of our company and our partners, their families, our clients and suppliers, the communities located near our work places and the public influenced by our work environment.

The safety of our employees and contractors is a matter of the highest interest and commitment for our company, being a crucial part of our strategy and of the way we do business. To ensure the safety and well-being of each employee we have not only implemented safety standards and procedures across all areas, but more importantly, we continue to build a culture of safety first.

**100% employees**
**included in performance and career programs**

**38.112 training hours**
**of health and safety training**

**12,04 average**
**training hours per emplyee/2017**

**Safety**
**0 fatalities, 0.07% injury frequency rate, injury severity 0.07%, 3 recordable incidents**

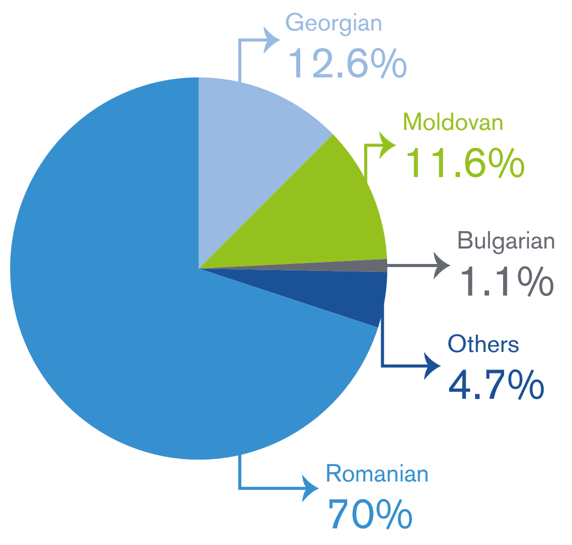


## Diversity and equal opportunity

### A COMMON GROUND FOR HIGHER PEAKS

To foster diversity and cultivate leadership, we employ a high number of local nationals in our international operations, including senior managers. By hiring locally, we demonstrate our long-standing policy to support the growth of our host communities.

KMG International employee community includes mostly Romanian employees (66%), given the Group's extensive operations here, but also Georgians, Moldovans, Kazakhs and Bulgarians, among others, a reflection of our commitment to fostering diversity and inclusion.




In an effort to stay competitive and up-to-date in an ever-changing market, KMG International developed training courses and gives attention to offering and implementing these specially developed programs for its staff.
We provide people with the opportunity to develop their professional and personal skills in order to create a working environment where everyone has the opportunity to learn, develop and contribute. It is a fact that 100% employees were included in performance and career programs.

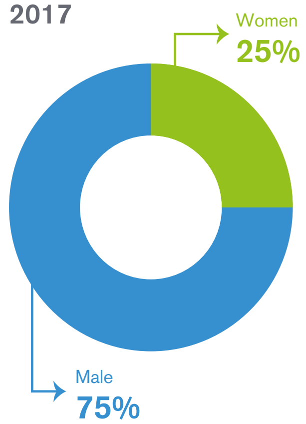
We are committed to providing a respectful, inclusive workplace free from harassment, discrimination, violence and intimidation. We do not discriminate based on gender, race, color, age, national origin, religion, disability, sexual orientation, marital status or any other characteristic protected by applicable laws. Moreover, we embrace diversity and equal opportunity as a mean to access a broader talent pool and foster innovation.

In being true to our commitment to provide opportunities for female employees to build a successful career within KMG International, we continued to support the improvement of gender diversity within our operations. The Romanian operations of the Group, which entail the majority of the Group's workforce, are carried out by 40% female employees.

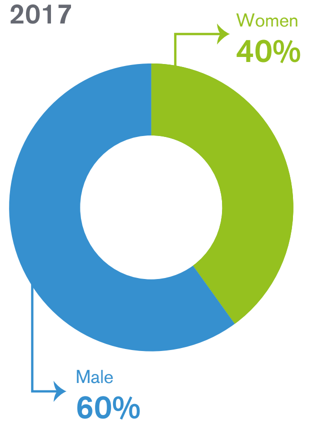
Furthermore, our pledge is to continue to improve gender diversity within our global operations and, in that respect, we are making every effort to attract qualified female employees across all areas and functions of our business. In 2017, 25% of new hires were female, while in Kazakhstan and Romania the percentages rose above the Group median, to 41% and 35% respectively.

We consider our employees to be the heart and soul of our organization. Therefore, we strive to create a safe working environment and to provide workshops and trainings in order to develop their skills and help them fulfill their potential.

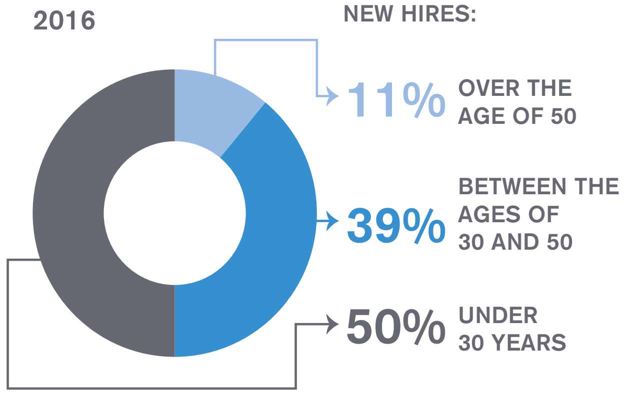
**GENDER**
2017




**ROMANIAN OPERATIONS**
OF THE GROUP
2017




**AGE**
2016



# ENVIRONMENT

CONSCIOUS TODAY FOR A SUSTAINABLE TOMORROW

We strive every day to further improve our performance in relation with the environment and we continually prepare to respond to future challenges and opportunities, while minimizing the environmental impact

We are aware of the importance of the environment in our work and we take into consideration the impact we have over the environment in every action we take. Our primary concern is to ensure the sustainability of human existence by carefully balancing social, economic and environmental capital in a continuously changing world.

On top of striving to minimize our impact on the environment and create value for all stakeholders, we also aim to provide the proper education to the host communities with regard to sustainable living and development.

We have strict environmental standards to manage greenhouse gas emissions, reduce our use of energy, minimize our consumption of fresh water and protect biodiversity.

In 2017, the volume of processed raw materials increased by 5% as compared to the 2016 level, up to 6.23 million tonnes in its 3 production units in Romania - the Petromidia and Vega refineries, as well as in the petrochemicals division. By environmental policy, our aim is to undertake reducing consumption of all resources.

## 2017 POSITIVE RESULTS

### Rompetrol Rafinare produces only Euro 5 fuels

### Energy Intensity Index of Petromidia Refinery

**decreased by 15 points, 2017 vs. 2012 (99.98 vs 114.9)**

**The energy consumption reported by the tone decreased in all our 3 production units:**

- **Petromidia: 2.1% (3.04Gj/to/day)**
- **Vega: 2.2% (2.65 Gj/to/day)**
- **Petrochemical plant: 11.5% (18.75Gj/to/year)**

### CO2 emissions

**for Petromidia and Vega refineries, and Petrochemical Plant decreased with almost 5% compared to 2016.**
**In Petromidia refinery, the waste recovery rate was 91%, based on record of raw materials processed in 2017, with a waste generation rate of 3 kg of waste/ton of raw material processed.**

**No hazardous wastes were transported, imported, exported and there was “0” accidental pollution (spill) in both Petromidia and Vega.**

**Petromidia Refinery and Petrochemical Plant consumed 3.5% less water compared to the year before, while Vega Refinery consumed 3% more water due to record production (bitumen and solvents).**



KazMunayGas International

# Biodiversity

Committed to protect the Black Sea and the Danube Being aware of our responsibility when it comes to preserving the biodiversity, the Group gives special attention to the Black Sea region (where Petromidia Refinery is situated) and cares about the very active wildlife populating the area.

We are committed to protect the environment and cause it no harm, while also helping the world understand the repercussions of wasteful behaviour.

The strategy of KMG International relies on the principles of minimizing the impact on the environment and working towards protecting it.

One of the projects focused on protecting the regional biodiversity is the periodical cleaning of the ponds and the removal of the reed plot. Due to the three comb-outs stage process implemented at the Petromidia Refinery, the water reused represents no danger for the regional biodiversity.

The two artificial ponds of the Petromidia Refinery, which are part of The Danube Delta Biosphere Reservation, is the home of more than 4 000 different species.

The Rompetrol Rafinare Wastewater Treatment Plant, which takes both the wastewater from the Petromidia Platform and the domestic waters of the city of Navodari, has besides the two treatment stages (mechanic-chemical and biological) and a tertiary stage consisting of two ponds situated in National Reservation of Danube Delta. In this last step, a natural water purification is carried out before the discharge into the Black Sea.

Although initially they have been artificially made over time, due to favorable conditions (the quality of the treated water), this considerable area of approximately 50 hectares has become the habitat of many animal species. In winter, due to the higher water temperature, the ponds become a real refuge for birds.

# Responding to climate change

THE BEST PRACTICES TO REDUCE EMISSIONS AND CONSUMPTION

We strive, on a daily basis, to improve the management of GHG emissions, reduce consumption of fresh water and thus improve our water management, minimize the waste produced and ramp up recycling rates, reduce the energy consumption in the production and transportation systems and protect biodiversity.

We pay great attention to observing the best practices the quality health-safety-environment (QHSE) management system.

EMISSIONS

**64,200**
**tons cut in emissions**
In 2017, in Petromidia and Petrochemical plant, while the total quantity of emissions in the 3 production units (Petromidia, Vega and Petrochemicals) decreased by almost 5%.

WASTE RECOVERY

**91%**
**recovery rate**
At Petromidia Refinery, a momentous improvement from 67% in 2015.
In 2017, the lagoon no 2 and lagoon 3 were emptied 100% and starting with October 2017 began the activity of emptying the historical sludge from lagoon no.1

ENERGY MANAGEMENT

**99,98%**
**energy efficiency**
In 2017, we obtained the lowest Energetic Intensity Index in the history of Petromidia

The energy consumption reported by the tone decreased in all our 3 production units.

In 2017, Petromidia Refinery had a 16,700 tons throughput / day and the energy consumption was 3.04 GJ/to, while at Vega Refinery, there were 1,022 tons of throughput/day and the total energy consumption was of 2.65 GJ/to.

Petrochemical Plant processed 166,444 tons of throughput /year consuming 18.71 GJ/to.





# Strategic objectives

ECONOMIC PERFORMANCE WITH RESPECT FOR THE ENVIRONMENT

The activities carried out by KMG International comply with the environmental legislation for each country where the Group operates. In each of these markets we strive to develop a sustainable business respecting the environment, being part of it, while pursuing economic performance. The commitments and measures adopted by KMG International are set by the environmental strategy the Group developed and adopted with the aim of ensuring a predictable and successful long-term approach towards the environment.

QUALITY OF FUEL

**Euro 5 products**
The emphasis was set on preparing gasoline and diesel fuels which meet the quality standards required on external (Euro 5 products) and internal markets (Euro 5 with Bio products). To this end, all the fuels produced by Rompetrol Rafinare were recertified for Quality, Environment, and Occupational Health and Safety Management systems in 2015.

WASTE RECOVERY

**- 3.5%**
In 2017, the total water consumption (input) at Petromidia Refinery and Petrochemical Plan decreased by 3.5% than in 2016, up to 5,883,000 m3.
The Wastewater Treatment Plant takes the wastewater from all companies on Petromidia Platform and also the domestic waters of the city of Navodari.
The treated waste water used at Petromidia Refinery was almost 9,408,000 m3 of which 25.3% of treated waste water was reused.
At our Vega Refinery, we held steady at 914,900 m3 of treated waste water discharged, the same as the previous years.

To further to our efforts of safeguarding the natural habitat and to reduce the risk of environmental accidents, KMG International Group will continue to allocate over 6 million USD until 2018 to the modernization and automatization of fuel loading-unloading systems of internal depots and terminals at Petromidia Navodari Refinery. In the process of modernizing our equipment and thus making it safer, Midia Marine Terminal, completed the works for the replacement of the oil transfer equipment at its offshore mooring point, to keep the Black Sea terminal in optimum safety and performance conditions.

# MARKETPLACE

## Supply Chain

Our role in the regional and global energy sector
KMG International aims to responsibly grow its business to become one of the largest independent oil companies in Europe, with a strong position in the Black Sea and Mediterranean regions. The Group conducts its operations in compliance with all available national and international regulations, constantly driving performance and generating operational improvements so as to benefit its wide range of stakeholders.

Our global strategy provides comprehensive directions on developing our customer and operational strategic priorities as we work with customers and suppliers to ensure responsible business operations.
In accordance with KMG International's major player status in the oil and gas industry in the region, we continually drive performance improvements and change to positively impact all our stakeholders.

**Full Reach**
**included in performance and career programs**

**38.112**
**training hours**
**of health and safety training**

**12,04**
**average**
**training hours per emplyee/2017**

**Safety**
**0 fatalities, 0.07% injury frequency rate, injury severity 0.07%, 3 recordable incidents**

### BEST PRACTICES FOR MAXIMIZING RESOURCES

As a major player in the oil and gas industry in the region, we constantly monitor our trading and supply chain activities that cover three major business areas: feedstock acquisition, planning and production optimization of the three refineries of the group, volumes allocation and logistics for all subsidiaries in Romania and in The Black Sea and Mediterranean regions.

We are committed to conducting business with ethical and socially responsible suppliers for procurement of goods, services and activities.

KMG International has developed an extensive, efficient and sustainable supply chain network which covers the purchase of feedstock, planning and production optimization, allocation of volumes and overall logistics for the Group's subsidiaries.

We base our procurements on competitive bidding and the principles of transparency, non-discrimination and equal treatment of bidders.

KMG International's Procurement Department works continuously to make our operations sustainable, being aware of the importance of social justice and environmental protection.

We are committed to using suppliers that operate consistently in accordance with our values, comply with applicable national laws and meet KMG International requirements for suppliers in the areas of HSE, quality management systems, ethics and anticorruption, and corporate social responsibility, including human rights and labor standards.

Having such a complex and well developed supply chain, managing and monitoring compliance with our standards in this area can become challenging.





## Quality and customer management

### BUILDING LONG-TERM RELATIONSHIPS

KMG International seeks to provide environmental, social and economic value through its products and services by constantly appraising and improving its portfolio in line with market demand and customer input. Guided by our passion for quality and innovation, we embed sustainability into every aspect of our activity pertaining to product and service development. Customer and employee satisfaction, surveyed annually by KMG International through extensive market studies, always play a significant role in the development of the company's business plan, offer and marketing activities.

We maintain trusted and long-term business relationships with many of our customers. The satisfaction of our customers is a key element of what we do.

KMG International regularly conducts extensive assessments of the health, safety and environmental risks of new products and maintenance of up to date information on existing products in our efforts to reduce and mitigate impact on customers, employees, communities and the environment.

Our evaluation process addresses attributes relating to human, environmental and societal impacts, such as environmental exposure, packaging and delivery systems or use of natural resources.

As a result, sustainability factors are included throughout the development process to reduce the potential impacts of our products.

All companies in the Group comply with the best practice code whereby operators are required to provide details of marketed products in conformity with the NP 004/2003 technical standard (normative) on fueling station design and operation, Law no - 307/2006 on firefighting, Law no 319/2006 on occupational health & safety and GD no 928/2012 setting the minimum requirements for fuel market introduction.

All KMGI organizations are following our MSDS and safety labeling regulations. There has been no identified non compliance to regulations and voluntary codes concerning health and safety impacts of products or product and service information and labeling in 2017, in line with the trend established in the previous years.

In 2017, the results of monitoring Rompetrol Rafinare customer satisfaction by an independent assessor showed that:

**94%**
**were satisfied with the company**

**96%**
**with its products**

**97%**
**of the customers interviewed stated that they would continue to use the products and services provided by the company**

# 10 | CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

## OPERATIONAL PROFILE

KMG International N.V. (formerly named The Rompetrol Group N.V.) is a company incorporated and operating under Dutch laws, having its headquarters located in Amsterdam, The Netherlands. The company was incorporated in November 1999, its entire issued capital being 100% held by National Company 'KazMunayGas' JSC since 9 May 2016. KMG International N.V. and its subsidiaries, altogether referred to as the KMGInternational Group, represent a major worldwide player in the oil field carrying out operations in 16 countries throughout Europe, Central Asia and North Africa. The KMG International Group's activities are primarily concentrated in the refining, retail, marketing and trading areas. The Group conducts additional operations in the exploration and production segments, as well as other oil industry services (such as upstream services, industrial services, drilling etc.), business and management consulting services being also performed as support function.

## MAJOR CORPORATE CHANGES

### Divestment of 51% share in KMG International N.V. and its subsidiaries to China Energy Company Limited (CEFC)

On December 15, 2017 the Conditional Deed of Transfer, signed at the end of 2016 between 'KazMunayGas' JSC ('KMG'), headquartered in Kazakhstan, and China Energy Company Limited ('CEFC') to divest 51% of KMG International shares to CEFC, extended its completion to June 30, 2018.

### Incorporation of Rominserv SRL Branch in Bulgaria and a permanent establishment in Georgia

On August 30, 2017, Rominserv SRL established a branch in Bulgaria. On September 21, 2017 a permanent establishment of Rominserv SRL was also established in Georgia.

### Incorporation of two new companies where Dyneff holds 50% interest, namely:

- Boissonnade Combustibles SAS on July 28, 2017
- Combustibles de Cerdagne SAS on August 1, 2017

## MANAGEMENT

The management system of KMG International N.V. includes three levels of approval, in accordance with its statutory documents and the applicable Dutch law:
- Sole Shareholder
- Board of Managing Directors
- Chief Executive Officer ('CEO')

The Sole Shareholder of KMG International N.V. is National Company KazMunayGas JSC. The Board of Managing Directors comprises 6 (six) managing directors, of which 1 (one) executive managing director (CEO) and 5 (five) non-executive managing directors, of which three independent.
Independent members are of paramount importance from the Corporate Governance perspective, as they provide well-grounded opinions in their area of expertise in support of management decisions, while also offering an increased protection of the interests of shareholders and other stakeholders, and an adequate guarantee for third parties. In accordance with KMG International N.V. Articles of Association and Board Regulations, the CEO, being the sole executive member of the Board, is responsible for the day-to-day management of the company, being also in





## THE COMPOSITION OF KMG INTERNATIONAL N.V. BOARD OF MANAGING DIRECTORS, AS OF DECEMBER 2017, IS:

MR. DANIYAR BERLIBAYEV
Chairman of the Board

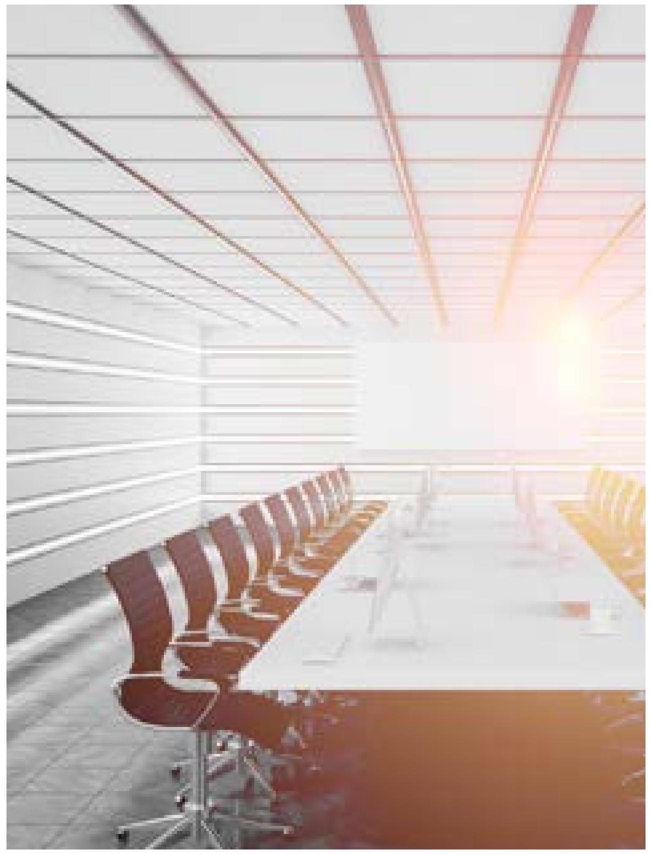
MR. ZHANAT TUSSUPBEKOV
Chief Executive Officer

MR. AZAMAT ZHANGULOV
Non-Executive Managing Director

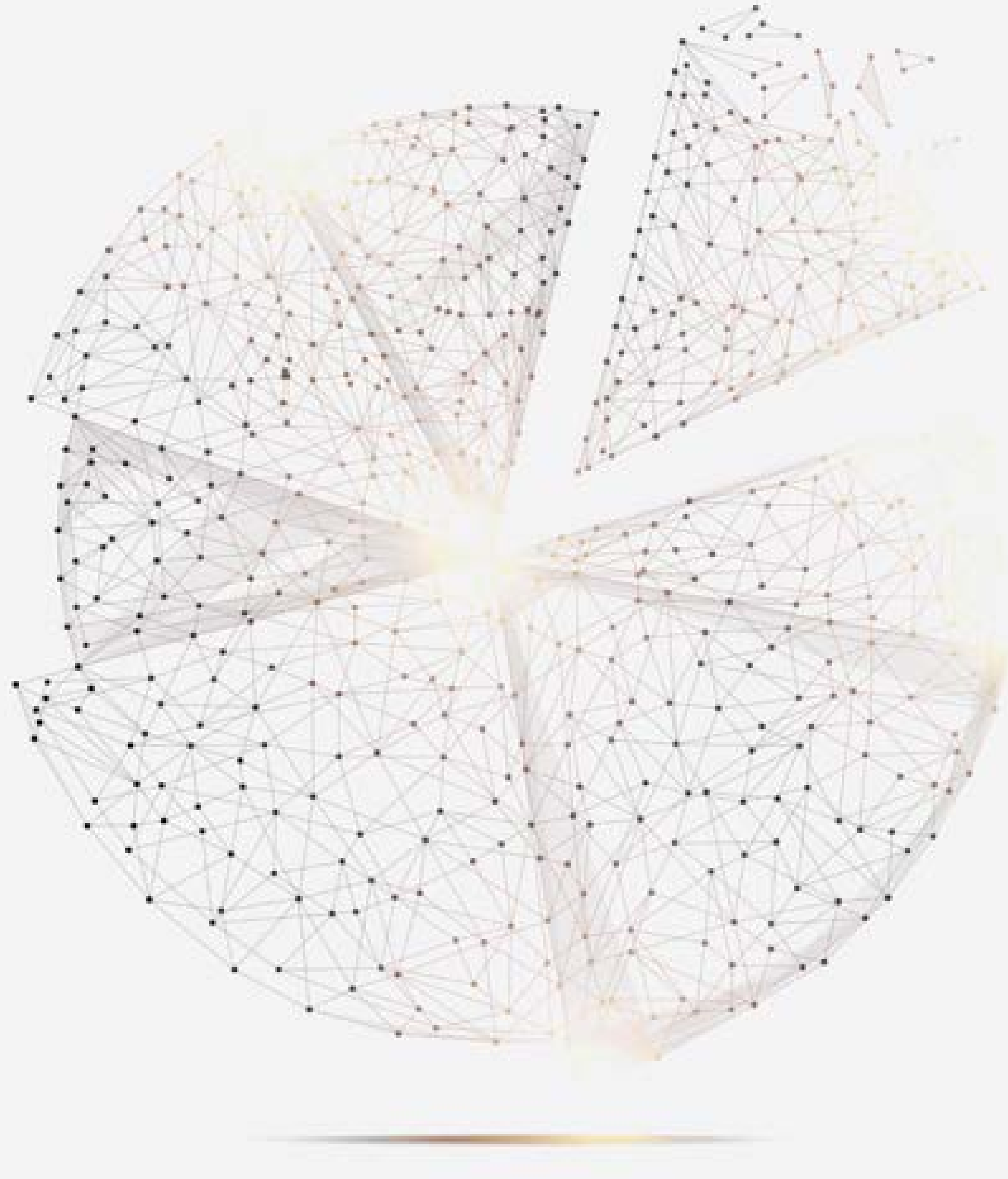
MR. JOHAN FREDERIK LODEWIJK FROWEIN
Independent Non-Executive Managing Director

MR. EMILE EDUARD WOLFF
Independent Non-Executive Managing Director

MR. RAMON DIEGO MENDES DE LEON
Independent Non-Executive Managing Director



# 11 | FINANCE



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 37,524,327 | 36, 706,881 |
| Goodwill | 46,686,545 | 46,686,545 |
| Property, plant and equipment | 1,189,125,362 | 1,201,679,541 |
| Financial investments | 151,645 | 151,645 |
| Investments in associates | 25,882,032 | 23,863,126 |
| Deferred tax asset | 60,756,391 | 63,466,702 |
| Long-term receivable | 10,272,945 | 9,912,380 |
| **Total non current assets** | 1,370,399,247 | 1,382,466,820 |
| | | |
| **Current assets** | | |
| Inventories, net | 423,576,462 | 344,473,649 |
| Trade and other receivables | 644,551,582 | 669,747,524 |
| Derivative financial instruments | 67,074 | 37,985 |
| Cash and cash equivalents | 222,161,901 | 75,021,462 |
| **Total current assets** | **1,290,357,019** | **1,089,280,620** |
| | | |
| **TOTAL ASSETS** | **2,660,756,266** | **2,471,747,440** |
| | | |
| **Equity and liabilities** | | |
| | | |
| **Capital and reserves** | | |
| Issued capital | 119,930 | 105,410 |
| Share premium | 922,831,302 | 922,831,302 |
| Other reserves | (4,905,227) | (5,264,765) |
| Additional paid-in capital | 1,074,500,000 | 1,074,500,000 |
| Effect of transfers with equity holders | 115,029,358 | 115,029,358 |
| Accumulated deficit | (1,016,409,666) | (1,062,372,067) |
| Translation reserve | (4,830,468) | (4,556,423) |
| **Equity attributable to equity holders of the parent** | **1,086,335,229** | **1,040,272,815** |
| Non Controlling interest | (246,226,690) | (278,850,774) |
| **Total equity** | **840,108,539** | **761,422,041** |





| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Non-current liabilities** | | |
| Long-term borrowings from banks | 53,834,729 | 308,898,074 |
| Net obligations under finance lease | 210,997 | 221,310 |
| Deferred tax liabilities | 1,033,528 | 2,184,472 |
| Provisions | 118,328,265 | 110,527,284 |
| Other non-current liabilities | 259,264 | 204,463 |
| **Total non-current liabilities** | **173,666,783** | **422,035,603** |
| | | |
| **Current liabilities** | | |
| Trade and other payables | 1,275,705,988 | 980,921,425 |
| Derivative financial instruments | 1,352,399 | 1,018,845 |
| Net obligations under finance lease | 39,657 | 30,349 |
| Short-term borrowings banks | 361,878,852 | 299,255,135 |
| Provisions - current portion | 8,004,048 | 7,064,042 |
| **Total current liabilities** | **1,646,980,944** | **1,288,289,796** |
| | | |
| **Total liabilities** | **1,820,647,727** | **1,710,325,399** |
| | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **2,660,756,266** | **2,471,747,440** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2017 and should be read in conjunction with these audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

# CONSOLIDATED INCOME STATEMENT

| | For the year ended | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| **Continuing operations** | | |
| Revenue | 8,322,706,699 | 5,706,141,433 |
| Cost of sales | (7,886,317,048) | (5,339,380,432) |
| **Gross profit** | **436,389,651** | **366,761,001** |
| Selling and distribution expenses | (179,187,956) | (166,469,296) |
| General and administrative expenses | (123,969,860) | (107,185,850) |
| Other operating expenses, net | (15,518,920) | (46,790,906) |
| **Operating profit** | **117,712,915** | **46,314,949** |
| Finance cost | (35,102,325) | (30,376,163) |
| Finance income | 2,556,304 | 1,143,893 |
| Net foreign exchange (losses)/gains | (359,047) | (6,699,908) |
| Share in profits of associates | 1,176,107 | 3,421,259 |
| Share of profit/(losses) of joint ventures | - | - |
| **Profit before income tax** | **85,983,954** | **13,804,030** |
| Income tax (expense) / credit | (5,560,284) | 216,508 |
| **Profit for the year from continuing operations** | **80,423,670** | **14,020,538** |
| **Profit after tax for the year from discontinued operation** | **-** | **-** |
| **Profit for the year** | **80,423,670** | **14,020,538** |
| Attributable to: | | |
| Equity holders of the parent | 47,799,586 | (9,681,713) |
| Non-controlling interests | 32,624,084 | 23,702,251 |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2017 and should be read in conjunction with these audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Profit for the year** | **80,423,670** | **14,020,538** |
| **Other comprehensive income** | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Exchange differences on translation of foreign operations | (274,045) | (1,007,273) |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Actuarial losses related to defined benefit plan | (1,837,185) | (1,298,669) |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Hedge Reserve | 359,538 | (1,117,248) |
| **Other comprehensive loss for the year, net of tax** | **(1,751,692)** | **(3,423,190)** |
| **Total comprehensive profit for the year, net of tax** | **78,671,978** | **10,597,348** |
| *Attributable to:* | | |
| Equity holders of the parent | 46,047,894 | (13,104,903) |
| Non-controlling interests | 32,624,084 | 23,702,251 |
| **Total comprehensive profit for the year, net of tax** | **78,671,978** | **10,597,348** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2017 and should be read in conjunction with these audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

# CONSOLIDATED STATEMENT OF CASH FLOW

| | For the year ended December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Profit before tax from continuing operations** | **85,983,954** | **13,804,030** |
| **Profit before tax from discontinued operations** | **-** | **-** |
| **Profit before tax** | **85,983,954** | **13,804,030** |
| Adjustments for: | | |
| Depreciation and amortisation | 110,165,265 | 108,984,132 |
| Reserves for receivables and inventories and write-offs | 5,646,898 | 41,435,026 |
| Impairment and provisions for property plant and equipment | 1,132,171 | 2,739,389 |
| Other provisions | 9,374,190 | 5,224,453 |
| Retirement benefit charged to equity | 390,157 | (445,833) |
| Late payment interest | - | - |
| Interest expense, commission and bank charges and collection discounts | 30,850,205 | 28,666,598 |
| Finance income | (2,556,304) | (1,143,893) |
| Net loss from non-current assets disposals and write-off | (452,123) | (262,185) |
| Net result from sale of investments | - | - |
| Unrealised losses/(gains) from derivatives on petroleum products | 708,216 | 927,294 |
| Realized losses/(gains) from derivatives on petroleum products | (173,957) | (901,737) |
| Share of result of associates | (1,176,107) | (3,421,259) |
| Unrealised foreign exchange (gain)/loss on monetary items | 4,099,116 | (480,167) |
| **Operating profit before working capital changes** | **243,992.075** | **195,125,848** |
| Net working capital changes in: | | |
| Receivables and prepayments | (114.394.046 ) | (165,358,759) |
| Inventories | (76,068,461) | (100,442,106) |
| Trade and other payables | 422,798.001 | 270,210,021 |
| **Change in working capital** | **231,235,494** | **4,409,156** |
| Income tax paid | (1,025,794) | (2,433,379) |





| | | |
|---|---|---|
| **Net cash provided by operating activities** | **474,201,775** | **197,101,625** |
| Purchase of property, plant and equipment | (103,380,000) | (100,700,000) |
| Proceeds from sale of property, plant and equipment | 947,868 | 408,445 |
| **Net cash used in investing activities** | **(102,432,132)** | **(100,291,555)** |
| **Cash flows from financing activities** | | |
| Interest and bank charges paid | (30,921,722) | (28,666,598) |
| Interest and other financial income | 2,556,304 | 1,143,893 |
| Movement in long -term borrowings | (62,502,890) | (54,052,108) |
| Movement in short-term borrowings | (133,760,897) | (14,895,426) |
| Repayments of finance leases | - | (1,558,734) |
| Equity distribution | - | (25,364,000) |
| **Net cash used in financing activities** | **(224,629,205)** | **(123,392,973)** |
| | - | - |
| **(Decrease)/Increase in cash and cash equivalents** | **147,140,438** | **(26,582,903)** |
| Cash and cash equivalents at the beginning of period | 75,021,463 | 101,604,366 |
| **Cash and cash equivalents at the end of the period** | **222,161,901** | **75,021,463** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2017 and should be read in conjunction with these audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

KazMunayGas International

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2017 and should be read in conjunction with these audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

| | Issued capital | Share premium | Accumulated deficit | Additional paid-in capital | Effect of transfers with equity holders | Other reserves | Translation reserve | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2016** | **109,085** | **2,631,512** | **(1,051,391,685)** | **2,020,199,790** | **115,029,358** | **(4,147,517)** | **(3,552,825)** | **(302,553,025)** | **776,324,693** |
| Net profit for 2016 | | | (9,681,713) | | | | - | 23,702,251 | **14,020,538** |
| Retirement benefit | | | (1,298,669) | | | | | | **(1,298,669)** |
| Hedging impact | | | | | | (1,117,248) | | | **(1,117,248)** |
| Translation differences | (3,675) | | | | | | (1,003,598) | | **(1,007,273)** |
| **Total comprehensive income** | **(3,675)** | **-** | **(10,980,382)** | **-** | **-** | **(1,117,248)** | **(1,003,598)** | **23,702,251** | **10,597,348** |
| Equity distribution | | | | (25,500,000) | - | | - | - | **(25,500,000)** |
| Share premium distribution - | | 920,199,790 | | (920,199,790) | - | | - | - | **-** |
| **'December 31, 2016** | **105,410** | **922,831,302** | **(1,062,372,067)** | **1,074,500,000** | **115,029,358** | **(5,264,765)** | **(4,556,423)** | **(278,850,774)** | **761,422,041** |

| | Issued capital | Share premium | Retained earnings | Additional paid-in capital | Effect of transfers with equity holders | Other reserves | Translation reserve | Non-Controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2016** | **105,410** | **922,831,302** | **(1,062,372,067)** | **1,074,500,000** | **115,029,358** | **(5,264,765)** | **(4,556,423)** | **(278,850,774)** | **761,422,041** |
| Net profit for 2017 | - | - | 47,799,586 | - | - | - | - | 32,624,084 | **80,423,670** |
| Retirement benefit | - | - | (1,837,185) | - | - | - | - | - | **(1,837,185)** |
| Hedging impact | - | - | - | - | - | 359,538 | - | - | **359,538** |
| Translation differences | 14,520 | - | - | - | - | - | (274,045) | - | **(259,525)** |
| **Total comprehensive income** | **14,520** | **-** | **45,962,401** | **-** | **-** | **359,538** | **(274,045)** | **32,624,084** | **78,686,498** |
| **December 31, 2017** | **119,930** | **922,831,302** | **(1,016,409,666)** | **1,074,500,000** | **115,029,358** | **(4,905,227)** | **(4,830,468)** | **(246,226,690)** | **840,108,539** |

# DIRECTORS' REPORT

## 1. INTRODUCTION AND OVERVIEW

In 2017, KMG International Group ("the Group", previously referred to as The Rompetrol Group N.V.) and its subsidiaries engaged in all aspects of the petroleum industry. Its core operations are in the downstream segment, through its competitive Petromidia refinery and strong retail operations in Romania and around the Black Sea. The Group continued to pursue its strategy of developing its core refining and distribution operations.

KMG International N.V. is part of the NC "KazMunayGas" JSC ("KMG") expansion strategy on the crude oil refining and trading segments in Europe, being an important move in building an energy bridge between Kazakhstan and Europe.

The main refinery is strategically located on the Black Sea shore, with easy access to several markets for which forecasted demand is expected to grow over the next years, at the same time offering certain advantages in each, such as: good contribution margins and/or room for additional market share growth.

## 1.1 MARKET DEVELOPMENTS

### a) Crude oil

Dated Brent started 2017 from the level of 55 USD/bbl. and decreased till mid of the year to one of the lowest level since June 2016, 44.3 USD/bbl. After June, the crude oil price recovered and reached the highest level of 66.5 USD/bbl. in the last day of the year.

The main factors that put pressure on the crude oil price in the first half of the year were the following:

- During April 2017, U.S. crude oil output rose to 9.29 million barrels a day, the highest level since August 2015, pushing up the U.S. crude oil inventories to 528.4 million barrels, the highest level in the last 35 years;
- The record U.S. crude oil stockpiles began to raise uncertainties about the effectiveness of OPEC-led efforts to ease the global surplus;
- Libya increased output by 180,000 b/d to 730,000 b/d, being the highest level since October 2014.

In the second part of the year crude oil price started to recover considering the flowing factors:

- During July 2017, American inventories declined to 500 million barrels, being the lowest level since January 6th, 2017;
- U.S. rigs targeting crude oil dropped to 729 in this period compared with 758 rigs in the first half of the year;
- In November 2017, OPEC and its allies agreed to limit their output until end of 2018.

### b) Urals RCMB – Dated Brent Differential

In the first half of the year the strength in Urals RCMB–Dated Brent differential has been supported by tighter loadings from Baltic ports and an increasing pull from the East.

On 2nd of August for first time since July 2015, the level touched breakeven (from -2 USD/bbl. at the beginning of the year to 0 USD/bbl.). Afterwards, the Urals differentials against Dated Brent have started to drop near -1.5 USD/bbl. In December 2017 the differential started again to increase to 0 USD/bbl.

### c) Refinery margin

In the first quarter of the year, the Refinery Margin was improved by lower supplies from other refineries due to the start of the spring refinery maintenance season.

After first quarter, strong contribution came from almost all the cracks back on summer seasonal demand, but the middle distillate complex received a boost from an unplanned outage at Hellenic refinery in Greece. Additionally, Shell shut down Europe's largest refinery in Rotterdam after a fire at a high-voltage electricity switch station, which led to an increase of the European Refinery Margins on the short-term.

Positive economic expectations in Europe stimulated higher gas oil/diesel consumption which led to an upward trend of the cracks since the beginning of the summer, reaching the highest levels in the last two years (14 USD/bbl.).





Also, Med gasoline cracks rose to the highest level in the last two years (19 USD/bbl.) as the strongest storm which hit the U.S. since 2004 (Harvey Hurricane), disrupted the energy market of U.S., by closing approximately 18% of national refining capacity and affecting the distribution of gasoline via pipeline.

European refinery margins have been benefiting from Harvey Hurricane and increased to 11.64 USD/bbl. in the last day of August, but the market started to rebalance as the U.S. refineries started to reopen. As a result, the Med gasoline cracks declined from 19.1 USD/bbl. to 12.6 USD/bbl. during September.

The Refinery Margins continues to decrease during November and December amid declines in all product cracks.

### d) Forex & Interest Rates

#### U.S. ZONE

Overall, the U.S. economy was characterized during the year by strong growth, rising inflation, robust employment and financial stability risks, factors that led to higher interest rates. However, in 2017 USD depreciated against EUR by 13.5% (from 1.0553 to 1.1974). In addition, Fed's three interest rate decisions were the key events of the year. The decision to increase the benchmark rate to 1.25-1.5% and more clear information on how the Fed plans to gradually shrink its balance sheet haven't sent the dollar higher against the EUR.

#### EUROZONE

Strong data from Eurozone, in terms of GDP and labor market gave ECB the opportunity to move with the policy in a growth area, first time after the economic crisis.

The very good macro results in terms of growth in industrial production that outpaced expectations, strong labor markets and the improved business and consumer confidence led to an appreciation of EUR against USD of 13.5% during 2017.

In general, the exchange rates movements in 2017 were in line with both fundamentals, politics and geopolitics. In the case of Romania, politics remained the major risk for the RON exchange rates.

The below table, summarizes the above factors levels recorded in 2017 and 2016:

| | | 2017 | 2016 |
|---|---|---|---|
| Brent Dated Average Price | USD/bbl | 54.19 | 43.73 |
| Ural Med Average Price | USD/bbl | 53.23 | 42.10 |
| Brent-Ural Differential Average Price | USD/bbl | 0.96 | 1.63 |
| Premium Unleaded 10 ppm FOB Med Average Price | USD/t | 548 | 462 |
| Diesel ULSD 10 ppm FOB Med Average Price | USD/t | 490 | 395 |
| RON/USD Average exchange rate | | 4.05 | 4.06 |
| RON/USD Closing exchange rate | | 3.89 | 4.30 |
| RON/EURO Average exchange rate | | 4.57 | 4.49 |
| RON/EURO Closing exchange rate | | 4.66 | 4.54 |
| USD/EURO Closing rate | | 1.20 | 1.06 |
| Inflation in Romania | | +3.32% | -0.54% |

### 1.2 GROUP STRUCTURE AND CORPORATE GOVERNANCE

The Group ultimate parent company is National Welfare Fund Samruk Kazyna JSC, an entity with its headquarters in Kazakhstan.

In May 2016, Cooperatieve KazMunaiGaz U.A. transferred its shares in KMG International NV to KMG JSC NC.

The Group operates more than 30 entities in 9 countries, in four Business Units. During 2017 the Group worked on improving the performance of its Business Units by focusing on core function, including supply chain optimization, performance management and capital investment governance.

As of the date of these financial statements, all members of the KMGI Board are men. The management members have been elected based on their experience and professional expertise, rather than their gender. However, the President of the Board is actively considering internal and external female candidates for inclusion in the Board in future.

## 2. OBJECTIVES, STRATEGIES AND OUTLOOK

### 2.1. LONG TERM STRATEGY OF THE GROUP

The KMG International Group has developed a Long-Term Development Strategy for each area of the business up to the year 2022. This strategy is reaffirming the Group's commitment to the chosen direction of growth, by maximizing the economic value through access to end consumers of products manufactured by the Group. KMG International relies on four synergic pillars:

- A modern, reliable and highly performing asset base;
- Capable management to drive improved performance;
- Long-term strategy that links the company's strengths with opportunities on the market;
- Adequate access to financial markets to fund strategy implementation.

The sound strategy has allowed the Group to significantly improve financial and operational results during 2012 and 2016 period:

- Petromidia refinery achieved higher production volumes, well above the originally designed capacity, and improved technical performance;
- Retail entities sales volumes increased;
- Consolidated financial net result reached positive levels in the last two years.

In 2017, the Group management prepared the updated version of the KMG International Global Strategy directed towards strengthening the operations in the countries of presence and expanding along the value chain in order to monetize the emerging and existing market opportunities.

The new strategy took into account development perspectives of the oil and gas industry and the current trends in the downstream sector, both in the region and internationally. Following the detailed assessment of available development scenarios, it was established that the downstream business would remain highly attractive in the medium term, in particular in the Central and Eastern Europe, as well as in Mediterranean and Black Sea regions.

Based on the above, the following strategic objectives were set for the Group:

a) In the short to mid-term, become a top integrated downstream player in CEE/Black Sea Regions;

b) In the mid-long term, further expand in MED;

c) Over the long-term, upon securing positions in the region, consider an increase in vertical integration of the Group, in particular through entering E&P sector and potentially reaching international capital markets.

In order to achieve these objectives, the Group will engage in both organic and non-organic growth areas.

The proposed strategic actions will be prioritized along three horizons, as follows:

a) Horizon I (1-5 years) actions are expected to capture immediate opportunities with low investments based on current assets.

- Main actions at this Horizon include refinery reinforcement, logistics debottlenecking, retail development, petrochemicals capacity expansion, including through a greenfield joint venture in Turkey, and trading growth.
- The selected initiatives are generally considered as part of organic growth as they are expected to be implemented using the available financial resources and technical expertise of KMGI. At the same time, they are positioned among the most important ones, as they leverage the current strengths of KMGI.

b) Horizon II (5-7 years) actions will allow the Group to expand through M&A and become integrated player in Central and Southern Eastern Europe. M&A opportunities in Central European countries where KMGI is not yet present should be pursued selectively, after strengthening the business in the current markets of presence.

c) Horizon III (7-10 years) actions will contribute to geographical expansion of the Group in the Mediterranean region, potentially increase refining capacity, and become a vertically integrated player by investing in the sector of exploration & production.

The actions within Horizons II and III mostly represent non-organic growth and aim at capturing market share in Central European countries or Mediterranean or increasing the size of the business in petrochemicals by making big investments that can considerably expand the asset base and financial indicators in one transaction.

Considering the scale of these investments will require joint financial effort of KMGI and its shareholders, they will be pursued if a number of conditions are met:

- fairly-priced financing options for the deal exist, including support from the shareholders;
- there is openness of the other parties for selling the asset or to enter a certain partnership, which is subject to change as per their strategy, and which should also reflect in an advantageous price or deal structure;
- there are no better concurrent opportunities for KMGI to invest in at any given time, from a business case point of view and considering potential synergies.

### 2.2. OUTLOOK FOR 2018

**Market environment**: For 2018 KMG International budgeted a crude oil average price of 55 USD/bbl. From the computation of the difference in between main products quotations and Urals quotation, weighted at approved budget 2018 production yields structure (main products represented are: Gasoline, Diesel, Naphtha, LPG, Jet, Fuel oil, Propylene, Coke, Sulphur) results a Market refining margin (1A basket) estimated at 48.4 USD/tonne.

In 2018, it is expected a growth trend in terms of gasoline and diesel demand for Group's key markets of +0.53% (annual average for Romania and Near Abroad).

Oil prices are not expected to advance much higher than 70 USD/barrel in 2018. Oil analysts have raised their forecasts for the crude oil price in 2018 after major producers agreed to extend output cuts. Political tensions in Saudi Arabia, production disruptions in Libya and Nigeria and economic depression in Venezuela that has cut crude oil output will also support oil prices.

National Bank of Romania interest rate is expected to increase in 2018 due to inflation pressures and overheating of the economy over the long-term potential.

Strong pressure on the depreciation of the RON against the EUR may happen due to political noise and due to macroeconomic imbalances (i.e. trade and budget deficits).

Group operations: The Group will continue to carry on the operational initiatives which were identified and put in motion starting 2016, such as: Refining planning and production optimization, energy efficiency and organizational effectiveness, increase of non-fuel profitability, Asian Market trading profitability increase.

These operational initiatives have as main purpose the improvement of the operational results with minimum investment cost.

From the production perspective, in 2018, the Group has the following expectations:

- Total feedstock planned to be processed in 2018 estimated at 5.45 million tonnes or 16.4 thousand tonnes/day;
- White products yield of 85.6%, -1% below actual 2017 mainly from different structure of feedstock (crude oil and SRGO);
- Increase in processing cost by 1.7 USD/tonne compared with 2017, mainly due to utilities expenses caused by higher utilities tariffs and negative impact from the exchange rate.

Considering the expected market environment and the internal operational initiatives, the Group's operational results are expected to continue to improve.

**Financing:** In 2018, the Group is not expecting any significant changes to take place in the financing structure. On April 23, 2018, the USD 340 million syndicated facility is expected to be prolonged for a minimum 3 years period. In accordance with the agreement schedule, an amount of USD 62 million will be repaid in 2018 in relation to the club loan.

## 2.3. KEY PERFORMANCE INDICATORS (KPIS)

In addition to the IFRS financial results, KMG International Group is also analyzing its consolidated results using Management Accounting principles, which represent a tool for analysis of day to day operations for forward looking decision making.

For Management Accounting results, the Group is performing 2 adjustments: Current Cost of Supply adjustment and the elimination of one-off exceptional elements (please see details below).

One of the most important indicator in assessing the group performance is represented by Group Operational EBITDA before exceptional elements (EBITDAE). Therefore, EBITDAE represents the Group Financial EBITDA adjusted with the impact of COSA and without the effect of exceptional items.

In addition, at the level of each entity and BU, depending on their specifics, various financial and non-financial performance indicators are also monitored. Details about them can be found in chapter 4, section 4.2.

### CURRENT COST OF SUPPLY (COSA)

The main additional topic brought by Management Accounting at Group level is the Current Cost of Supply adjustment, which supports the Group in reflecting the operating performance by eliminating from Cost of Sales the positive or negative price impact generated by the previous month(s) feed stock acquisitions made at different market conditions than at the moment of sale. Operating performance under the Current Cost of Supply method equals revenues made at the current month market products quotations / prices (Actual prices) less Cost of Goods sold valued at current month market acquisitions quotations /prices and not valued at the historical acquisition prices (under Current Cost of Supplies the Cost of Goods is not impacted by the value of the opening inventories).

Starting with 2015, management uses this method – also called replacement cost method - for investors to understand the operating performance of the Group excluding the impact of oil price changes from one period to another on the replacement of inventories. Current Cost of Supply (CCS) method is used for disclosure purposes only, amounts presented in the Directors' Report are not separately reflected in the financial statements.

The only one performance normalization adjustment impacting Group consolidated results is the current cost of supply adjustment computed for the core petroleum products selling entities: Petromidia, Vega, Petrochemicals, Downstream Romania, Rompetrol Gas, Rompetrol Bulgaria, Rompetrol Georgia, and Rompetrol Moldova. The other normalizations are giving Intra-Group effects. For example, Production BU, Rompetrol Rafinare and Rompetrol Petrochemicals performance review only include key refining performance drivers such as fixed and variable costs of processing, throughput, yields performance and Energy Intensity Index (EEI). Production BU overall financial performance will be assessed at a notional tolling fee basis. Notional processing fee shall be set at cost basis according to the calculation formula.

### EXCEPTIONAL ITEMS

"Exceptional Items" means items of an unusual or non-recurring nature which represents gains or losses but limited to the following:
(a) third party advisory and banking costs related to Permitted Acquisitions;
(b) implementation costs associated with setting up the organization, including IT costs and advisory costs, incurred or accrued during the financial year;
(c) actual or preparatory costs incurred regarding any integration, disposal, debt or equity financing, litigation, claims, investigations or settlements (and in each case whether or not successful);
(d) the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring including notice terms and severance payments related to redundant personnel; and
(e) any other any exceptional, one off, non-recurring or extraordinary item.

## 2.4. PEOPLE

The average number of employees of the Group in 2017 and 2016 was 5,628, respectively 6,244.

The Group employs best practices for attracting, retaining and motivating its employees, who are the principal contributors to the development of the Group. The Group is fully committed to its responsibilities for their development and for the communities in which it operates



## 2.5. RESEARCH & DEVELOPMENT

The Group pursues a number of research and development projects, which are mainly related to the improvement of refining processes, as well as to the enhancement of petroleum products specifications.. On the petrochemicals part, research and development projects referred to production of new grades, focusing on grades for electrotechnics applications, injection molding and biaxially oriented film.

The aggregated expenditures incurred during 2017 in relation to the above-mentioned project are not material for the Group. The results of the research and development projects in progress at the date of this report are not expected to have a material impact in the Group operations and performance, yet we anticipate they will contribute to the Group development in the medium and long term.

## 2.6. CORPORATE SOCIAL RESPONSIBILITY

The Group evolution over the past few years stands witness the efforts to become one of the most sustainable oil and gas players in the national and regional market.

KMG International is member of the United Nations Global Compact and a founding partner of the UNGC local network.

The Group uses the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines as a guide for determining the relevant content in developing the sustainability report as they are the most commonly used sustainability guidelines and reporting principles around the world, being recognized as the best practice barometer in this area.

### COMMUNITY AND CORPORATE PARTNERSHIPS

KMG International, under the Rompetrol brand, continued to be main partner of the George Enescu International Contest, the year's defining event for classical music lovers and promoter of Romania's cultural identity.

KMG International supported the 14th edition of the Civil Society Gala, the most important project dedicated to the activity of the associative sector in Romania. Rompetrol is a partner and main sponsor for the Civil Society Gala since 2003 – this is the annual competition that awards the best projects of the year, initiated by NGOs, unions, individuals and others.

Rompetrol Rafinare, member of KMG International, adopted the group's strategy for sustainable development and supports a wide range of CSR projects – such as the partnership with SMURD, established in 2010.

KMG International is actively involved in cultural programs and projects designed to promote the social and cultural values of Romania, both nationally and internationally. An initiative in this direction was the bringing to Romania the Kazakh Film Festival.

## 3. RESOURCES EMPLOYED

The Group is financing its operations through 3 main financing lines, as follows:

- A revolving facility of USD 340 million, out of which USD 240 million are committed over 3 years period and USD 100 million as overdraft over one-year period, being an uncommitted facility. The facility is granted by a consortium of 4 banks (Unicredit Romania, Raiffeisen Romania, ING and BCR Romania). The advantages of this syndicated facility are a common pool of guarantees enabling higher utilization rate of the guarantees and its usage is better linked to KMG International specific activities. On April 23, 2018, the facility is expected to be prolonged for a minimum 3 years period;
- A club loan of USD 200 million, for corporate purposes, repayable in 5 years, in 13 equal tranches starting the second anniversary of the loan. Maturity date of the loan is August 19, 2019. As of December 2017, the Group repaid 6 of the instalments in an amount USD 92 million, in accordance with the schedule;
- Trading lines which amounts USD 733 million and consists of revolving lines utilized to finance refinery feedstock and third-party trading deals.

All the above-mentioned credit lines are bearing market interest rates.

## 4. ANNUAL RESULTS REVIEW

### 4.1 CONSOLIDATED OPERATIONS REVIEW

The consolidated accounts prepared in accordance with IFRS are fully disclosed in the next chapter of this report and further analyzed in the following sections by segment (figures in USD million).

From IFRS perspective the 2017 key financial performance indicators of the group have significantly improved compared with previous year, as follow:

| million USD | 2017 | 2016 |
|---|---|---|
| Net Revenues | 8,323 | 5,706 |
| Gross Profit | 436 | 367 |
| Provision and other reserves related to litigations | - | (27.9) |
| Net Result | 80.42 | 14.02 |

The Group assesses the performance based on Managerial Accounting, by normalizing the elements described under Chapter 2. The below table presents the Net Result and EBITDAE of the Group from an IFRS perspective and from a Managerial Accounting perspective:

| million USD | 2017 | 2016 |
|---|---|---|
| **Net IFRS Result** | **80.42** | **14.02** |
| Add back/Less: | | |
| *Share in profits of associates* | *(1.18)* | *(3.42)* |
| *Finance expenses including forex* | *32.91* | *35.93* |
| *Income Tax* | *5.56* | *(0.22)* |
| *Depreciation expense* | *110.17* | *108.98* |
| *Provisions and other non-cash elements* | *14.45* | *48.34* |
| **EBITDA** | **242.33** | **203.64** |
| Add back Exceptional items | 9.30 | 10.10 |
| **EBITDAE** | **251.63** | **213.74** |
| Adjustment for current cost of supply | 10.33 | 25.39 |
| **EBITDA according to Managerial Accounting** | **261.96** | **239.13** |

Under the exceptional items were included legal and consultancy costs related to litigations of USD 9.3 million.

In addition to USD 9.3 million exceptional items adjusted in EBITDAE, the operational net result is further adjusted with the effect of provisions which do not relate to the 2017 operational activity, such as: environmental provision for Vega remediation project, allowance for Rompetrol Ukraine receivables, provision for fiscal litigations.

These results reflect the efforts of the management and entire group towards implementing actions for continuous improvements around the entire Supply chain: Crude oil Supply, Refinery operations, Trading and Whole and Retail sector.

The 2017 COSA adjustment for Managerial Accounting on top of IFRS resulted in a positive result of USD 10.33 million at Group level (2016: USD 25.4 million).

The major part of the USD 10.33 million COSA Adjustment refers to Petromidia Refinery (USD 12.42 million), while for the entire BU Refining (including Petromidia Refinery, Vega Refinery and Petrochemicals plant) it is USD 13.46 million. The adjustment related to BU Retail is USD (3.13) million, out of which USD (1.92) million refers to Rompetrol Downstream.

Key factors that contributed to the financial results were:

1) Improvement of the operational efficiency of the Refinery following the Upgrade program and furthermore technological innovative solutions;
2) Increased sales through controllable channels corroborated with retail network development;
3) Operating cost optimization.



| 2017 | Refining | Retail | Trading | Non-Core and Others | Consolidating Adjustments* | Consolidated |
|---|---|---|---|---|---|---|
| Net revenues | 3,027 | 2,016 | 8,169 | 344 | (5,234) | 8,323 |
| Gross profit | 131 | 198 | 72 | 74 | (37) | 436 |
| Capex | 60 | 36 | 1 | 8 | (5) | 100 |

| 2016 | Refining | Retail | Trading | Non-Core and Others | Consolidating Adjustments* | Consolidated |
|---|---|---|---|---|---|---|
| Net revenues | 2,258 | 1,553 | 5,524 | 286 | (3,915) | 5,706 |
| Gross profit | 85 | 186 | 67 | 40 | (11) | 367 |
| Capex | 37 | 40 | 0 | 10 | (4) | 83 |

**Consolidated financial position and liquidity**

The main financial position indicators have significantly improved in 2017 compared with last year:

| *million USD* | 2017 | 2016 |
|---|---|---|
| Non-current assets | 1,370 | 1,382 |
| Current assets | 1,290 | 1,089 |
| **Total assets** | **2,660** | **2,471** |
| **Equity** | **840** | **761** |
| Non-current liabilities | 174 | 422 |
| Current liabilities | 1,647 | 1,288 |
| **Total liabilities** | **1,821** | **1,710** |

As at December 31, 2017 the Group reported positive net assets, of USD 840.11 million, higher by USD 78.6 million than last year, as a result of the 2017 exceptional operational performance.

Cash and cash equivalents at the end of 2017 were in amount of USD 222 million (2016: USD 75 million). For the year ended December 31, 2017 the Group reported net cash inflows from operating activities of USD 474.2 million, out of which USD 249 million represents early collections in Trading segment, needed for third party business LC issuing.

Considering the maturity date of April 20, 2018, in the 2017 financial position the syndicated loan is presented under current liabilities (USD 216 million), while in 2016 a significant portion of this facility was presented under the non-current liabilities (USD 193 million). Management is currently in advanced negotiations with banks to extend the syndicated loan for a minimum 3 years period before the expiry term of the current loan.

If the above syndicated loan and payables to KMG group companies are excluded from current liabilities, then the Group has a strong net current asset position in amount of USD 103 million, of which USD 222 million in cash.

The long term and short-term loans decreased in 2017 with USD 192.4 million as a result of reimbursement of club loan's instalments according to the agreement schedule (USD 61.5 million) and a significant reduction of trading lines (USD 120.3 million).

## 4.2 SEGMENT OPERATIONS REVIEW

The KMG International Group includes 4 Business Segments:

- Refining and Petrochemicals, including the Petromidia Refinery, Vega Refinery and Petrochemical complex;
- Trading and Supply Chain, including KMG Trading, Midia Marine Terminal and Byron Shipping, being responsible for the optimization of the entire supply chain of KMG International, from feedstock supply till sales of finished products;
- Retail and Marketing, with about 1,000 fuel stations in 4 countries (Romania, Moldova, Bulgaria, Georgia), operated under "Rompetrol" brand;
- Upstream and Industrial Services.

The Refining and Petrochemicals segment includes two refineries and one petrochemical complex.

| Refining | | 2017 | 2016 |
|---|---|---|---|
| Feedstock processed in Petromidia Refinery | '000 Tonnes | 5,662 | 5,408 |
| Feedstock processed in Vega Refinery | '000 Tonnes | 373 | 354 |
| Gasoline produced | '000 Tonnes | 1,488 | 1,448 |
| Diesel & jet fuel produced | '000 Tonnes | 2,979 | 2,751 |
| Motor fuels sales – domestic | '000 Tonnes | 2,128 | 1,884 |
| Motor fuels sales – export | '000 Tonnes | 2,111 | 2,118 |
| Export | % | 50% | 53% |
| Domestic | % | 50% | 47% |

### PETROMIDIA REFINERY

Gross revenues of Refining segment reached over USD 3.479 billion in 2017 increase by 20% compared with prior year, being mainly influenced by the volatility of international quotations of petroleum products and by the increase in the volume of products sold compared to last year.

The refining capacity utilization for Petromidia refinery was 85.88% in 2017, just slightly below last year (0.8% lower) as result of additional works required during maintenance period, however the total throughput for Petromidia refinery was 5.66 million tonnes, respectively 4.71% higher compared with last year when the total throughput was 5.4 million tonnes.

Petromidia refinery managed to achieve in 2017 a very good operational performance, at historically high levels for its main technological and operational parameters such as:

- Historical level of feedstock processed: 5.66 million tonnes with an equivalent of 16.8 thousand tonnes /day of feedstock processed (5% improvement against last year);
- Historical record for white products production: 4.88 million tonnes;
- Historical record for auto gasoline production :1.46 million tonnes;
- Historical record for diesel production: 2.74 million tonnes;
- Historical record for propylene production: 133 thousand tonnes;
- Technological loss of 0.85%wt compared with 0.913% wt in 2016;
- Jet yield (4.4 %), equivalent of 251 thousand tonnes production (2016: 237 thousand tonnes);
- Energy Intensity Index 99.9% (2016: 97.94%).

Petromidia's gross refinery margin improved in 2017 compared with last year by 20%, reaching a level of 50.9 USD/tonne as against 42.5 USD/tonne in 2016.

The company's financial results were positively influenced by favorable market conditions and by production process optimization programs (increase of processing capacity and increase of white products yields) and also influenced by operating costs optimization, programs that started in the year 2014 and successfully continued in the following years (out of which reduction in steam and power consumption are the most significant).

### VEGA REFINERY

In 2017, the total throughput for Vega refinery was 373 thousand tonnes, higher by 5.26% compared with prior year when the total throughput was 354 thousand tonnes, which also extended in a higher capacity utilization by 5.65% compared to the prior year.

Vega refinery also managed to achieve in 2017 very good operational performance results, at historically high levels, of which the following are emphasized:

- Historical record for feedstock processed of 373 thousand tonnes, higher by 19 thousand tonnes compared with 2016;
- Historical record for Bitumen production and sales of 96 thousand tonnes;
- Highest production for ecological solvents of 41 thousand tonnes;
- Hexane production reached 80 thousand tonnes;
- Processing cost of 38.5 USD/tonne, the lowest ever reached by the refinery;
- Lowest technological loss of ~ 1%wt.

### PETROCHEMICALS

The 2017 year was very good for the petrochemicals activity in terms of operational performance:

- Historical record for feedstock processed running only with PP and LDPE units:198.5 thousand tonnes (134 thousand tonnes, propane propylene mixture, 64 thousand tonnes ethylene);
- Historical record for production: 193 thousand tonnes,
- Record for propylene grade production: 20 thousand tonnes;
- Lowest energy index 18.7 GJ/tonne.

For the year 2017 the polymers production was 147 thousand tonnes, lower by 1.77% compared to 2016 when the total polymers production was 150 thousand tonnes, mainly due to lower operation period of units.

| Petrochemicals | | 2017 | 2016 |
|---|---|---|---|
| Propylene processed | '000 Tonnes | 134 | 124 |
| Ethylene processed | '000 Tonnes | 64 | 65 |
| Total polymers production | '000 Tonnes | 147 | 150 |
| Sold from own production | '000 Tonnes | 189 | 188 |
| Sold from trading | '000 Tonnes | 1.4 | 1.2 |
| Total sold | '000 Tonnes | 191 | 190 |
| Export | % | 50% | 57% |
| Domestic | % | 50% | 43% |

### TRADING AND SUPPLY CHAIN SEGMENT

During 2017, KMG Trading has successfully continued to play the role of trading-arm of the Group, assuring all feedstock imports to the Petromidia Refinery (total of 5.5 million tonnes) and products exports in the abroad markets (1.6 million tonnes).

Third parties trading activity reached a record level of 13,306 thousand tonnes during 2017, +2,869 thousand tonnes or +27% higher than 2016 performance level.

KMG Trading continued in 2017 the Agency Commission Contract for Tengizchevroil (TCO) Project for both Crude oil (USD 1.13 million earnings) and LPG (USD 0.7 million earnings). Additionally, KMG Trading managed to maintain KPO volumes by re-routing through TH KMG NV, with minimum margin loss, as requested by KPO.

Also, during 2017, KMG Trading initiated the business with IPEK, sourcing fuel oil from Venezuela and deliver to Singapore and started in October 2017 a new trading business in Kazakhstan with products (Jet, Gasoline and Diesel).

From financial results perspective, KMG Trading kept a good growth trend performance, managing to secure good margins on Refinery exports and favorable economics for the feedstock delivered to Petromidia, increasing the margin performance on Crude Oil volumes from KMG companies traded in the market, alongside securing the agency partnership with TCO and continuing to identify business opportunities in the abroad markets.

Midia Marine Terminal contribution since start up in January 2009 on crude oil supply chain optimization by using the SPM terminal directly connected to Crude Oil Tank Farm was a minimum saving of USD 5/tonne (in the absolute amount USD 166 million), by eliminating the third-party handling/storage/transfer costs and commercial/technological losses.

During 2017, Midia Marine Terminal achieved a new record from operational point of view, the total quantity of crude oil handled via SPM was 4.59 million tonnes plus 0.49 million tonnes alternative feedstock, having recorded a total of 33.1 million tonnes and 385 tankers operated at this terminal since start up in 2009.

### RETAIL AND MARKETING SEGMENT

In 2017 the Retail and Marketing segment, covering over 1000 fuel distribution points, managed to increase in volumes compared to 2017, reaching a total of 3.3 million tonnes (2016 - 3 million tonnes) of products sold.

Rompetrol Downstream, covering the Romanian market, reached record sales in 2017 of 1.89 million tonnes, increase by 7% against 2016 (1.77 million tonnes). Record sales were noted in all major channels, having also a historical level for the petroleum products daily sales for all retail channels. In addition to the petroleum products sales, the non-fuel retail segment reached record contribution with an increase of 20% compared to 2016.

During 2017, Rompetrol Downstream continued the implementation of important investment projects, like opening 4 new stations, increasing the internal base network and rebranding of gas stations, LPG skids, partner stations and express stations. On top of this, the continuation of the implementation of the new business model by Rompetrol Downstream plus the enhancement of the cost control measures have allowed Rompetrol Downstream to obtain better operational results, generating a higher EBITDA by 5% versus last year.

During 2017, Rompetrol Moldova continued the development of the gas stations network, opening 5 New DOCO Stations. The overall volumes sold increased by 18% in 2017 compared with 2016: sales increase against 2016 in Retail by 7% and in Wholesale channel by 24% (especially in Wholesale to Reseller and Trading channels).

Rompetrol Georgia kept the volumes in 2017 at the good level of 2016, with a slight increase in Retail Channels through the increase of average daily cash sales in gas stations. From network development perspective, 22 existing stations were rebranded and 10 new internal bases were installed during 2017.

Rompetrol Bulgaria continued to reach record sales in 2017 of 479 thousand tonnes, 7% higher compared with last year, as a result of the marketing activities, rebranding project and focus on the daily average cash sales of the gas stations. From network development perspective, 2 new stations were opened during 2017, while 16 existing stations were rebranded.

### UPSTREAM AND INDUSTRIAL SERVICES SEGMENT

Rominserv, the Group's engineering company, has completed 114 projects during 2017. From these 114 projects, 105 projects have been developed within Rompetrol Group and 9 external projects (mostly in Kazakhstan). Revenues increased by 12% versus last year, mainly from CAPEX projects activity.

In 2017, Rompetrol Valves Iaifo recorded a positive market trend, its turnover increasing by 42% compared with the year 2016 (USD 5.7 million vs. USD 4 million) due to significant demand increase from the traditional clients. In 2017, strict cost control measures continued to be applied to the company activity and personnel in order to restructure the company and to decrease operational costs.

In 2017, Palplast revenues were lower with 8% compared with 2016 due to reduced market demand of pipes, following a very low absorption of European Union funds, the main financial source of public projects (water, gas, sewerage, irrigation networks). Palplast also continued to reduce the energy consumption and technological waste in the production process and to recover in the future the profitability indicators having information from the market that the demand will return to normal conditions in the first months of 2018.

Rompetrol Quality Control is an independent and competitive company on the laboratory analysis market, which provides reliable services both to third parties and Group companies. In 2017, Rompetrol Quality Control (RQC) continued the good results from last year in order to consolidate its overall market share and to increase the turnover and profitability from third-party customers. The revenues from third-party customers obtained in 2017 were the highest in the last 2 years, increasing by 6% compared with the year 2016.
In 2017, Rompetrol Well Services increased the level of activity and the capacity utilization following a growing trend of the drilling activity of the main domestic customers in the second half of 2017. In 2017, EBITDA increased more than 9 times compared with the year 2016 (USD 1.7 million vs. USD 0.2 million).
In 2017, Drilling & Workover activity continued the low trend from the last years due to the political and military instability in Libya. Starting February 2015, the activity of the Libyan Branch was suspended until further notice. Drilling services in Morocco were finalized at the end of October 2015; the rig is under demobilization in Romania, further market opportunities being under assessment for concluding a new drilling agreement.





### 4.3 INVESTMENTS AND DIVESTMENTS

In 2017 there were no acquisitions or divestments of investments in subsidiaries.

## 5. RISK MANAGEMENT

### 5.1 RISK MANAGEMENT PROCESS

KMGI Group considers the management of risk to be an integral part of good management and has committed to embedding risk management into existing practices and business processes so that it becomes part of a consistent Group culture and not viewed as an independent activity.

As an organization operating in a volatile industry and naturally exposed to a high variety of risks, KMGI is dedicated to a disciplined approach of risk management, to building an environment in which the economic decisions are risk-based, in order to effectively respond to new threats and opportunities, to reduce potential future losses and to optimize returns.

Increasing risk management awareness and taking only calculated risks is part of KMGI strategy and a priority for Group's executive management. To ensure this objective, KMGI operates through a comprehensive and integrated risk management system. Enterprise Risk Management ("ERM") organizational structure defines for each management level the permitted responsibility for decision-making and control in relation to risk management at all levels of the Group. Group's management is actively involved and supports the implementation and improvement of the Enterprise Risk Management System.

This framework ensures the identification, assessment and control of significant risks in all entities and at all levels of organization so that the financial strength of the Group is safeguarded and major losses are avoided.

From the governance perspective, KMGI operates under the three lines of defense model. KMGI objective is to achieve excellence through effective functioning of all defense lines.

- The first line of defense is represented by operational managers who are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis.
- The second line of defense is represented by Risk Management and Internal Controls function which establishes the internal control and risk management standards and methodologies, coordinates, monitors and consolidates the information, supports and challenges the first line-of-defense in the process of risk identification, evaluation and mitigation.
- The third layer is represented by Internal Audit that provides independent assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives.

An Enterprise Risk Committee exists and it is the validation and approval body in relation to the enterprise risk management framework.

Risk owners are assigned for each identified risk, and equally, for each entity, a person responsible for risk management is defined, with specific responsibilities set in respect of risk management.

Group's disciplined approach to risk management is iterative, scalable, and includes the following steps: goals setting, establishing the risk appetite and risk tolerance, risk identification, risk assessment and analysis, developing risk management measures, risk monitoring, information and communication of risk data.

Regular reporting covering major risk exposures, effectiveness of risk management measures and internal control system is developed and reviewed by the Enterprise Risk Committee. The risk profile is periodically reviewed and approved by the Group's Board.

The treatment of risks focuses on reaching the optimal risk balance between costs and benefits, under economic efficiency constraints, and the approach is mainly proactive (implementing countermeasures for decreasing the risk's occurrence likelihood) but also reactive (countermeasures which reduce the risk's impact).

Risk management measures consist of risk transfer (like hedging strategies or insurance policies), risk reduction, risk retention or if possible risk avoidance, trying to reach the optimal level of risk suitable to the Group.

The enterprise Risk Management System is regularly updated for identifying all possible risks and maximizing the effective implementation of monitoring and risk management methods.

## 5.2 KMGI RISK PORTFOLIO

The risks currently managed by KMGI are organized and analyzed from various perspectives: production risks, non-production risks, external environment risks and investments risk or market, financial, operational and strategic risk categories containing among others: market risks, financial risks, project and investments related risks, operational risks, health safety and security risks, tax risks, compliance risks, HR risks, legal & regulatory risks, reputational risks, geopolitical risks.

With regard to tools and techniques to assess the risk exposures, KMGI is following best practices in the industry and it is continuously improving its methodological framework using scenario analysis, historical data, trends and volatilities or future estimations calibration.

A robust Enterprise Risk Management process secures KMGI long-term sustainability and decreases the uncertainty over group's strategic objectives and financial targets.

## 5.3 ANALYSIS OF MAJOR RISKS

### SUPPLY CHAIN AND LOGISTICS RELATED RISKS

The Group business is significantly dependent on timely supply, efficient production and effective distribution of products to customers. This risk is considered as having a medium impact to the overall Group activities.

For mitigating this risk, plans were developed to enable i) to secure alternative supplies at short notice with limited financial impact, widening the Group's ability to efficiently use variable production recipes and efficiently manage the relations with key logistics suppliers and ii) to increase the ability to intervene directly to support the logistics process should any of the designated suppliers fail to deliver on time. A rolling investment budget was implemented to aid supply chain and logistics process with constant funding of storage, measurement and transportation facilities maintenance and improvement.

### INFORMATION TECHNOLOGY AND SYSTEMS RELATED RISKS

The Group operations are heavily dependent on IT systems and the electronic management of information. Increasing digital interactions with customers, suppliers and consumers place ever greater emphasis on the need for secure and reliable IT systems and infrastructure and careful management of the information.

Key hardware components that run and manage key operating data are backed up with separate contingency systems to provide regular back-up copy should they ever be required. We maintain a group wide system for the control and reporting of access to our critical IT systems. This is supported by an annual program of testing of access controls. There are policies covering the protection of both business and personal information, as well as the use of IT systems and applications by our employees. Our employees are trained to understand these requirements. We have standardized ways of hosting information on public websites and have systems in place to monitor compliance with appropriate privacy laws and regulations, and with Group policies.

### RISKS RELATED TO EXTERNAL POLITICAL AND SOCIAL FACTORS

The Group operates internationally and is exposed to a range of external economic and political risks that may affect the execution of the strategy or the running of the operations
This risk is considered to have moderate potential impact on overall Group results.

The Group focuses on creating a flexible business model that allows adapting the product and channeling portfolio and responding quickly to develop new offerings that suit consumers' changing needs during economic fluctuations. Regular updates are made to the forecast of business results and cash flows and, where necessary, investment priorities are rebalanced. Many years of exposure to different markets have given the Group the experience of efficiently operating and developing the business successfully during periods of economic, political or social instability.

### LEGAL AND REGULATORY COMPLIANCE RISKS

The Group needs to ensure compliance with laws and regulations in areas such as product quality, product claims, competition, employee health and safety, the environment, corporate governance, listing and disclosure, employment and taxes. Legal and regulatory compliance risks are considered to have medium size potential impact on overall Group activities and results.

The Group is committed to fully complying with the laws and regulations of the countries in which it operates. In specific areas the teams of technicians at Group or local levels are responsible for setting detailed internal regulations and ensuring that all employees are aware of and comply with the laws specific and relevant to their roles. The legal and regulatory specialists are regularly involved in monitoring and reviewing the Group practices to provide reasonable assurance that the Group is in line with all relevant laws and legal obligations, to actively monitor proposed changes in legislation, and to ensure these are considered into future business plans.

Within the oil industry in which the Group operates a significant importance is given to the compliance with health and safety standards.

The Group is committed to continuously improve the safety performance. The safety performance indicators are the following:

- The HSE index (50% Fatal Incident Rate + 40%TRIR + 10%Motor Vehicle Crash Rate) recorded reached a value of 0.10% (2016: 4.54%);
- Total recordable injury rate (TRIR) achieved in 2017 a level of 0.22 %( 2016:0.98%) compared with the maximum target (threshold) of 1.25%.

### RISKS RELATED TO CUSTOMER RELATIONS

The strength of the customer relationships affects the Group's ability to obtain better pricing and competitive commercial advantage. Failure to excel in building such relationships or to deliver on commitments could negatively impact the financial position and the Group's brand.
Customer relations are an important part of any business and risks arising thereof could have a medium potential impact to the overall Group results.

The Group is committed to building and maintaining outstanding trading relationships across a broad spectrum of distribution channels in a wide range of geographical locations. KMGI management constantly identifies changing market trends and builds relationships with new customers, such as those more oriented on technology. The development of close business plans with DODO customers that include detailed investment plans and customer service objectives is increasing the strength of the customer relationship in DODO distribution channel. Investment in technology is made to optimize ordering, controlling and stocks management processes to ensure effectiveness of internal processes and better controls.

### FINANCIAL RISKS

The Group's activities expose it to a variety of financial 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 main risk management objective is to minimize the potential adverse effects on the financial performance of the Group companies.

### COMMODITY PRICE RISK

The Group is affected by the volatility of crude oil, oil product and refinery margins. Commodity price risk is considered to have a high potential impact on overall Group results.

Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. In order to protect the Group against the volatility of oil prices, a hedging program for Rompetrol Rafinare was implemented since 2011.

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 and 0 stocks for KazMunayGas Trading A.G.) is hedged using future contracts traded on ICE Exchange and/or some OTC instruments. The base operating stock in Refinery 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 2017, the hedge strategy for 2017 was split between futures and options.

Trading activities are separated into physical (purchase from third parties other than KazMunayGas Group, 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 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. The company had also a part of hedge for refinery margins operation. The European refinery margin had a good evolution during 2017 (in line with last year figures). In particular, in August, as a result of Harvey Hurricane in US, there was a temporary lack of supply in the region which pushed up European Margins to outstanding levels, being also a good moment for refiners to hedge upcoming period.

In terms of Refinery Margin Hedge, the company recorded in 2017 a positive paper gain of USD 2.8 million, compared with USD -0.9 million loss in 2016. The net impact of the commodity hedges (physical result –gain- plus paper result –loss- for hedged stocks) was USD 8.5 million (2016: net gain of USD 10.5 million). In the same time, the company results were positively impacted by the inventory gains related to the base operating stock in refinery but considering such stock is constant in time, the gain is only on paper not in cash.

## 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. Interest rate risk is considered to have a low size potential impact on overall Group results.

## FOREIGN CURRENCY RISK MANAGEMENT

The Group's functional currency is United States Dollar ("US Dollars") and crude oil imports and a significant part of petroleum products are all denominated principally in US Dollars, therefore limited foreign currency exposure arises in this context. However, 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. Group Treasury is responsible for handling the Group foreign currency transactions and together with Risk Management department, they effectuate a natural hedge process (i.e. active management of credit, cash etc.). Foreign currency risk is considered to have a medium size potential impact on overall Group results.

## 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 shareholders loans, bank debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. Capital risk is considered to have a medium size potential impact.

# 12 | AUDITOR'S LETTER

Ernst & Young Assurance Services SRL
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Building a better working world

To: The Board of Directors of KMG International N.V.

World Trade Center,
Strawinskylaan 807
Tower A, 8th Floor
1077XX Amsterdam
The Netherlands

**Auditor's report**

***Introduction***

We have audited whether the accompanying abbreviated consolidated financial statements of KMG International N.V. for the year December 31, 2017 have been derived consistently from the audited financial statements of KMG International N.V., for the year ended 31 December 2017. In the auditor's report dated April 20, 2018 issued by Ernst & Young Accountants LLP, Amsterdam, The Netherlands (signed by Mustapha Abdellati), an unqualified opinion on the full consolidated financial statements was expressed. Management is responsible for the preparation of the abbreviated financial statements in accordance with the accounting policies as applied in the consolidated financial statements of KMG International N.V. Our responsibility is to express an opinion on these abbreviated financial statements.

***Scope***

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the abbreviated financial statements have been derived consistently from the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, these abbreviated financial statements have been derived consistently, in all material respects, from the consolidated financial statements of KMG International N.V. for the year ended December 31, 2017.





Building a better working world



**Emphasis of matter**

For a better understanding of the Group's financial position and results and the scope of the audit, we emphasize that the abbreviated financial statements should be read in conjunction with the full financial statements from which the accompanying abbreviated financial statements were derived as well as the unqualified auditor's report issued by Ernst & Young Accountants LLP, Amsterdam, the Netherlands (dated April 20, 2018) on the full financial statements. Our opinion is not qualified in respect of this matter.

Alexandru Lupea, Partner

For Ernst & Young Assurance Services S.R.L.

Bucharest, Romania
August 16, 2018

10 YEARS ANNIVERSARY

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