KazMunayGas International

rompetrol


# ANNUAL REPORT 2015

KazMunayGas International

rompetrol KazMunayGas Group Member


# 01 CEO MESSAGE

# CEO Message

**Zhanat Tussupbekov,
CEO KMG International**

Given the ownership structure, KMGI is acting as an integrated company enjoying direct access to crude from Kazakhstan, as well as funding for strategic investments and working capital. Through its business brunches, KMG International is a driver for development both in Romania and Kazakhstan in industrial services, reaching the European markets through its quality products. A new business strategy adopted in 2013 ensured the financial sustainability, the improvement and development of its core operations. The focus on quality and innovation supported the positive progress of the Group and its member companies. We have reached in 2014 and 2015 record high operational and financial results. In 2015, the Group reported outstanding performances, historical records in over 18 years after its incorporation. The Group's operational result (EBITDA) reached USD 162 million, whereas the operational net result USD 4.6 million, in 2015.

A key-role in reaching these performances is represented by the continuation of the program launched in 2013 for transforming the Group's activities and relevant operations, the total value of the benefits generated by the implementation of projects for the improvement of financial and operating indicators. These envisaged an enhancement of efficiency within Petromidia refinery and an increase in the sale of oil products in Romania, process automation to cut down and prevent losses, as well as the creation of an integrated center for support functions. The strategy proved to be an efficient one and it has showed its results. Thus, we keep our confidence, using our necessary drivers for the future growth of the company.

We manufacture in Romania, most of our employees are from Romania, we export from Romania in over 20 countries and together we managed to build in Romania a platform supporting and consolidating the energetic security of Romania, of the Black Sea region, and also of the Central and Eastern Europe.

We are focusing continuously in providing our clients with the innovative quality products. KMG International will extend its retail activity in Romania and in other distribution networks in the Black Sea region, such as Moldova, Georgia and Bulgaria. Also, the Group developed a new operational model for the entire distribution network in the country. Thus, we intend to increase our refining capacity and we are considering the possibility to increase the current capacity of Petromidia refinery, also to expand our gas station network and develop industrial services projects both on upstream and downstream segments.

The investments made until the present, the business model implemented and the business partnerships to be developed in the future are the necessary drivers that empower us to be optimistic in regards the further growth of the business.

# 02 REFINING AND PETROCHEMICALS

# Rompetrol Rafinare

## Historical record

**PETROMIDIA REFINERY**

Petromidia Refinery operated by Rompetrol Rafinare company – part of the KMG Group international, registered in 2015 a historic record for an overday processed quantity of raw material – **over 15,000 tons,** representing the highest quantity for the Refinery ever since 1979 – the year of its commissioning.

Among the historical records registered by Rompetrol Rafinare in 2015 for the second consecutive year, we can see the **increase of capacities on all white products – 85.7%. Mechanical availability** reached a historical maximum of **96.9%.** At the same time, the refinery reached an improvement of the **energetic efficiency index – reaching the value of 98.6.**
In 2015, the highest Diesel fuel capacities reached at 50% and Kerosen 4.4%, ever in history.

Also, the petrochemical division of Rompetrol Rafinare obtained in 2015 new types of products, these representing 6.8% of the total production of the Polypropylene installation.

**THE VEGA REFINERY** – reached an all time high of the Hexan (71,000 tons) and Bitumen (80,000 tons) production.

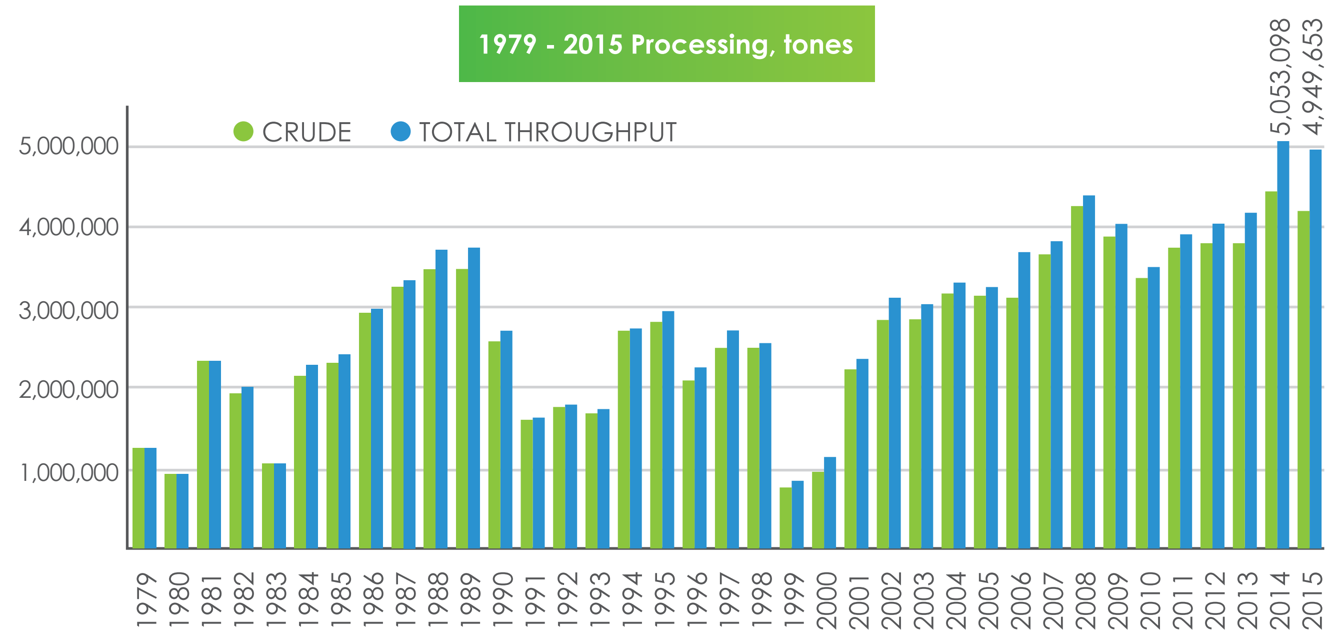
Against the background of investments by KMG International and KazMunayGas in the upgrade and increase of processing capacity, together with investments to develop the petrochemical sector and the supply of crude and distribution of fuels at both national and regional level, the Black Sea refinery managed to maintain in 2015 the historical operational records reached in 2014. With the completion of the wide program for the upgrade and processing capacity increase, the strategy and ambition of the Company focused and will focus on optimized production processes, lower processing costs and increased energy efficiency.

**GENERAL TURNAROUND COMPLETED IN SAFETY CONDITIONS**

Once every 5 years, the general turnaround of the two refineries takes place.
These turnarounds required sustained preparatory works, all critical points and possible scenarios taken into consideration. The process involved a high volume of multi-discipline activities meant to achieve a high level of operational safety, to reduce the costs on maintenance and to improve the operational efficiency of the refineries by increasing mechanical availability. A series of works were performed to increase the level of safety in exploitation of the installations, and also to improve operational efficiency. Over 4.000 subcontractors worked together at the same time on the technological platforms. Huge quantities of scaffolding and insulation were used: 280,000 cubic meters of scaffolding and 45,000 square meters of insulation. Also, high volumes of sand blasting and anti-corrosive protection were attained: 35,000 square meters of sand blasting and 47,000 square meters of anti-corrosive protection. Through general subcontractor Rominserv, approximately 1,400 inspections and over 400 OHS (occupational health and safety) check-ups were conducted, running checks on 26 reactors and repairing 50 columns and 23 furnaces, over 250 heat exchangers and 111 electric engines. Pressure tests were also performed on over 2,800 pipes.

The total value of the works performed during the General Turnaroundson the technological platforms of Petromidia and Vega were of 68.41 million USD.

The evolution of the subject of 1979 (the year of starting up the first installation within Rafinăria Petromidia - Atmospheric and Vacuum Refinement) up to 2015 is rendered by the graphic below:




In October – November 2015, there was a general turnaround of the refinery, turnaround which takes place every 5 years, in compliance with the decision of the management of KMG Group International.

**ROMPETROL RAFINARE,** a member company of the KMG International Group, operates the Petromidia refinery located in Navodari, Constanta county, as well as the Vega Refinery in Ploiesti, Prahova county. Through its petrochemical division, Rompetrol Rafinare is the sole polymers producer in Romania. Rompetrol Rafinare also holds Integrated Environmental Authorizations, issued by the competent environmental authorities in accordance with the legislation regarding the environment, for the 2 operated work points: Petromidia (work points Rafinărie and Petrochimie) and Vega.

## PETROMIDIA REFINERY

The production schedule of the Rompetrol Rafinare S.A. - work point Năvodari (Petromidia Refinery) for the year 2015 has been designed for a total processing capacity of 4,713,109 tons, of which 4,353,225 tons of crude oil and 359,884 tons of other raw materials.
Processing carried out in the year 2015 is of 4,949,653 tons, out of which 4,204,588 tons of crude oil and 745,065 tons other raw materials.

Petromidia has achieved nearly 2.47 million tons of diesel fuel in 2015, the highest level it has ever reached since its commissioning in 1979. The increase of mechanical and operational availability allowed for an improvement of the Energy Efficiency Index, which came to 98.6 points, the best annual level achieved by the refinery up to date, as well as a cut on expenses on processing.

The improvement of the op-

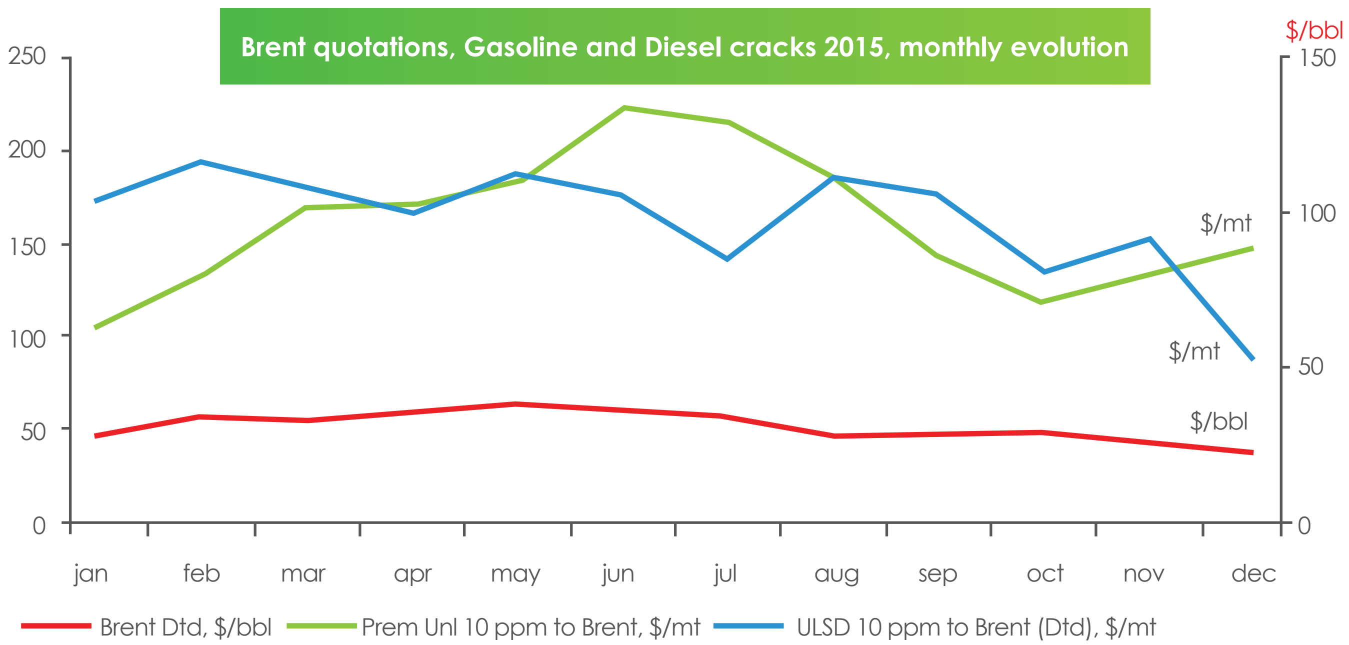
| 2015 | Budget (tones) | Actual (tones) |
|---|---|---|
| Total throughput | 4,713,109 | 4,949,653 |
| Crude Oil | 4,353,225 | 4,204,588 |
| Other feedstocks | 359,884 | 745,065 |

From the operational point of view, the refinery has been working at full capacity of 15,150 tons of raw material per day, reported to the time effectively worked, registering record performances. The Diesel fuel yields amounted to 50% in 2015, while fuel yields (petrol, Diesel, jet fuel, automotive GPL) reached 75.5% in 2015, the best in the refinery's history.

erational results, but also the fact that the Petromidia Refinery has achieved historical records in 2015 were supported by the completion in 2012 of the program of modernization and increase of the processing capacity to 5 million tons per year, and the technological works for the purposes of the overhaul scheduled for the March – April 2013, as well as implementing operational improvement measures within the Dolphin Project.


The operation of the refinery facilities shall be carried out in accordance with the highest standards of performance and safety, while ensuring the fulfillment of the commitments entered into relating to the environment protection.

All throughout 2015, the crack of petrol surpassed that of Diesel fuel by approximately 62.86 USD/ton, the trend being on positive during January – July 2015 (reaching at 1.89 USD/ton in January, and 130.91 USD/ton in July), negative during August – September (down to 36.52 USD/ton), so that during October – December to return to a positive trend reaching 95.83 USD/ton at the end of the year.




*Source: Platts*

In 2015, energy consumption (GJ/t) reported per ton of throughput met a downfall of 3.81% vs 2014, due to implementing the measures efficient energy improvement of the Delfin Project – an improvement project on operational efficiency.
The cost of utilities per ton has decreased by 6.7 USD/ton in 2015 as compared to 2014, due in particular to lower purchase prices, on utilities and energy efficiency improvement.

# Vega Refinery

The production schedule of ROMPETROL RAFINARE S.A., work point Vega Refinery for the year 2015 has been designed for a total processing capacity of 292,830 tons, of which 292,721 tons raw materials of the KMG International Group and 109 tons raw materials purchased outside the Group.

This schedule has been the basis for the preparation of the income and expenditure budget for the year 2015.

The processing acieved in 2015 is of 328,746 tons, of which 328,650 tons and 96 tons non grup.

This processing represents 112.3 % of the program set up for the 2015 budget, in accordance with the raw materials available at the Petromidia Refinery and the market demand.

| 2015 | Budget (tons) | Achieved (tons) |
|---|---|---|
| Total throughput | 292,830 | 328,746 |
| - Group | 292,721 | 328,650 |
| - Non Group | 109 | 96 |

In 2015, the ratio of energy consumption was lower by 3% as compared to 2014, due to the different operation of the plants from the previous year, and to the measures taken to lower consumption.

The quantitative structure of the supplies is summarized in the following table:

| Product | Total Deliveries tons | Internal | | External | |
|---|---|---|---|---|---|
| | | tons | % | tons | % |
| Products delivered | 328,713 | 120,691 | 36.72 | 208,022 | 63.28 |
| Gasoline + solvents | 130,680 | 4,516 | 3.46 | 126,164 | 96.54 |
| N-Hexane | 72,944 | 2,413 | 3.31 | 70,531 | 96.69 |
| White Spirit | 8,744 | 4,921 | 56.28 | 3,823 | 43.72 |
| Diesel fuel | 4,050 | 3,949 | 97.51 | 101 | 2.49 |
| Light oil fuel type III | 3,508 | 3,508 | 100.00 | - | - |
| Heavy fuel oil | 27,996 | 20,592 | 73.55 | 7,404 | 26.45 |
| Bitumen | 80,792 | 80,792 | 100.00 | - | - |

# Petrochemical division

The production plan of ROMPETROL RAFINARE S.A. – Petrochemical Plant for year 2015 was done with Polypropylene (PP) and low pressure Polypropylene (LDPE) units, in service for 365 days.

This schedule has been the basis for the preparation of the income and expenditure budget for the year 2015.

The 2015 polymer production was 142,276 tons, of which: PP - 82,208 tons and LDPE – 60,068 tons.

The structure of the physical production as compared to the budget, in 2015, is as follows:

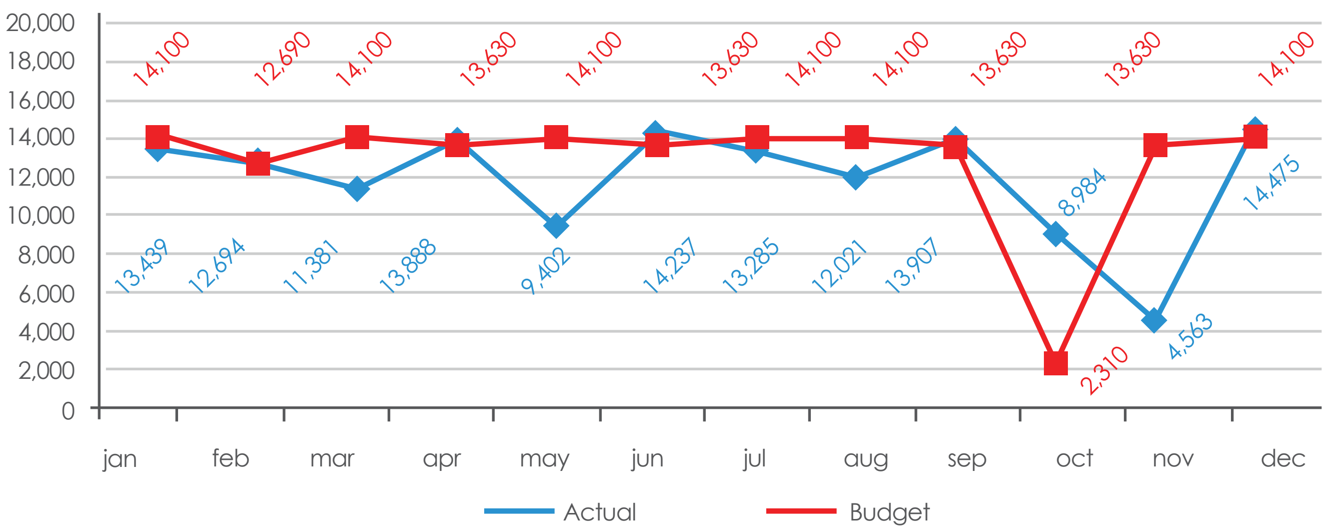
| 2015 | Budget (tons) | Achieved (tons) |
|---|---|---|
| Finished goods | 154,120 | 142,276 |
| PP | 83,980 | 82,208 |
| LDPE | 70,140 | 60,068 |

The comparison of the production with the budget shows that the PP production reached 98% of the budget, while the LDPE production reached 86% from the budget.

The quarterly processing is shown in the table below:

| | | QUART. I | QUART. II | QUART. III | QUART. IV | 2015 |
|---|---|---|---|---|---|---|
| PP | Budget, tons | 22,620 | 22,880 | 23,140 | 15,340 | 83,980 |
| | Achieved, tons | 23,179 | 23,886 | 19,768 | 15,375 | 82,208 |
| | Achieved/Budget (%) | 102% | 104% | 85% | 100% | 98% |
| LDPE | Budget, tons | 18,270 | 18,480 | 18,690 | 14,700 | 70,140 |
| | Achieved, tons | 14,335 | 13,641 | 19,445 | 12,647 | 60,068 |
| | Achieved/Budget (%) | 78% | 74% | 104% | 86% | 86% |

### 2015 Monthly production evolution versus Budget (tonnes)



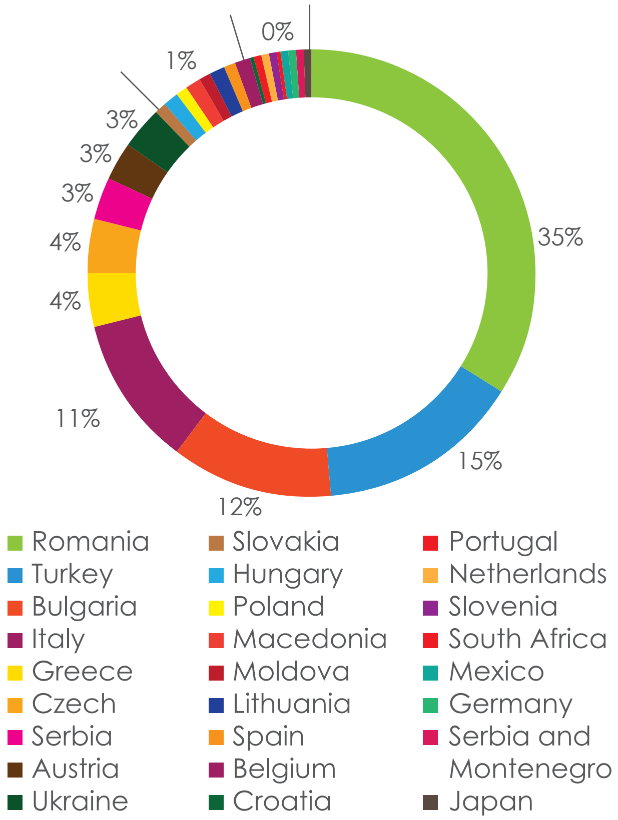

The 2015 structure of the processed raw materials against the budget is as follows:

| 2015 | Budget (tons) | Actual (tons) |
|---|---|---|
| Raw materials | 185,995 | 175,318 |
| Propane-propylene mixture | 114,130 | 113,032 |
| Ethylene | 71,865 | 62,286 |

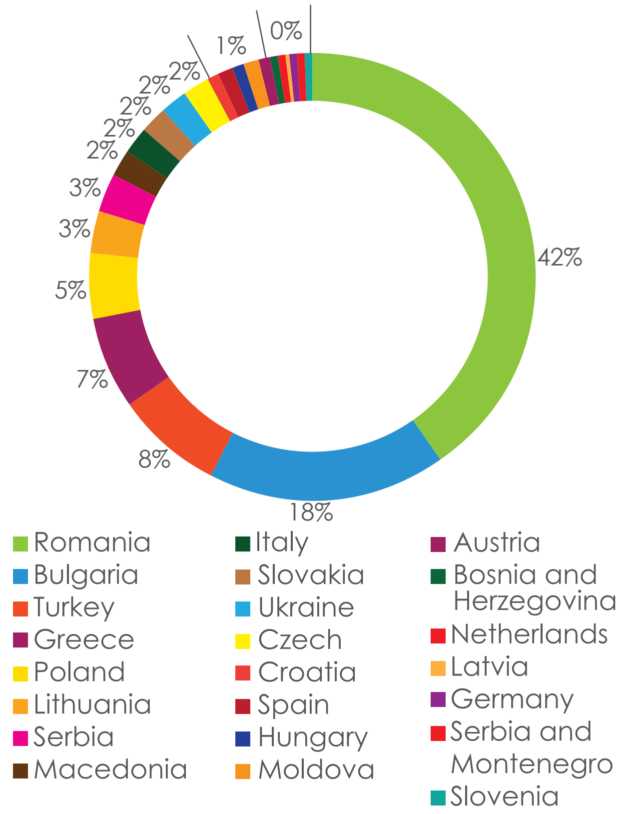
The polypropylene installation is fully integrated to Petromidia refinery, on raw material flow, utilities and logistics. For the raw material LDPE installation, ethylene is exclusively imported. In 2015, the availability of ethylene decreased due to the embargo on Libya and Iran, leading to a discontinuous supply of raw material. Thus, processed ethylene was by 13.3% lower than the budgetary forecasts.

In 2015, commercial policy aimed at increasing the sales on the domestic market and diversifying the foreign distribution network, with a view to increasing the commercial margin.

### PP sales by Distribution Channels




### LDPE sales by Distribution Channels




The quantitative structure of the polymer deliveries is summarised in the following table:

| 2015 | Total deliveries | Deliveries: Internal | | Deliveries: Export | |
|---|---|---|---|---|---|
| | Tons | Tons | % | Tons | % |
| PP | 82,603 | 29,268 | 35% | 53,335 | 65% |
| LDPE | 59,151 | 24,919 | 42% | 34,232 | 58% |

# I) Investment activity

The investment activity in the year 2015 has focused, in accordance with the program, on the following:

- The increase of the processing capacity of the refinery and the generation of fuels, with the specification in line with the European standards as also an increase of the white products efficiency;
- The alignment with the requirements of the European Union, the environmental standards in force, and in particular with the aim of reducing emissions.

The investments performed in 2015, added up to 102,428,761 USD.


## The main projects completed in the year 2015, in the Petromidia Refinery

### DREDGING OF PORT MIDIA

The project relied on efficiently dredging to reset to the project settled depth of the water in Midia Harbor with a maximum allowed draft of 8.5 m.
The main objective of the project was the increase of number of vessels to transit Midia Harbor. Allowing transit to vessels with length of up to 200 m and max draft of 8.5m on the access channel, maneuver basins and the basins of Berths or 1-4, 9A and 9B of Midia Harbor by performing efficient dredging to return the project settled depth of the water in Midia Harbor.

These allowed for safety conditions to load vessels up to 30,000 tdw and increase the number of vessels to transit Midia Harbor. The max draft of 8.5 m shall allow the transfer of oil products schedules to be loaded at the terminals of Midia Harbor, and not at the Oil Terminal, at much higher costs. The drafts were confirmed by the Midia Harbor Master's Office, which lead to resuming the deliveries of oil products to be exported on contracts already signed and excluding losses by limiting the draft.
The project was concluded in May 2015.

### REPLACING OF THE FIRE FIGHTING PUMPS – BERTHS 1-4

The purpose of this project is to ensure the functionality of the terminal in compliance with the functioning permit, of the fire scenario approved by the legal institutions, of the project and for all types of oil vessels likely to be in transit.
The conditions of protection against fire of the terminal are permanently ensured by two water pumps for fire, in optimal functioning condition.
The project was concluded in October 2015.

### REPAIR WORKS ON HOMOGENIZER 103/9

The purpose of the project was to ensure the functioning conditions of the Refinery and Petrochemical, avoiding any accidental stoppages of the refinery should the take-over of waste water be impossible and avoiding penalties in case of any environmental contamination, by performing the overhaul of homogenizer 103/9.
The project was concluded in January 2015.

### INCREASE OF THE SECURITY LEVEL ON PETROMIDIA PLATFORM (PEM + PET)

**The target of the projecs:**

- Securing the perimeter of Rompetrol Rafinare Platform to the North, West, South and East, including IPPA and Rompetrol Gas resulting in decreasing the threats of penetration and associated risks, such as robberies, vandalism and damages.
- Securing the perimeter of Rompetrol Petrochemicals.
- Complying to the in force legislation, Law 333/2003 and GR HG301/2012.
- Increasing the level of security and discipline within the protected perimeter.
- Securing gates CFU-2, IPPA-2, Rompetrol Gas-1, CET–1, Parking by the gate 2 – 2, Parking by the gate 3 – 2.

The project was concluded in November 2015.

### OBTAINING THE ISCIR 2015 AUTHORIZATIONS FOR EQUIPMENT AND PIPES

The project to obtain the ISCIR authorizations for pipelines and conduits included only activities that could be performed with the plants under operation. 406 pressurized plants, 22 lifting systems, 1,312 pressurized pipelines and 1,071 have been subject to ISCIR authorization. The receipt of these authorizations warrants the safe operation of the Refinery plants according to current legal provisions, by means of an assessment of the equipment status after a period of operation, as well as by the elimination/repair of defects found during assessments.

### 2015 REFINERY GENERAL TURNAROUND

The project started with a view to periodical inspection of the machinery, changing of catalysts, maintenance work on the equipment.
For Petromidia Refinery, the general shut down represents a large scale scheduling of


maintenance activities within which the entire process is out of functioning for a longer period of time with a view to rehabilitation and potential ample revamping.
In order to ensure a high level of safety of the operating equipment, every 5 years, in compliance with the “refinery best practice”, it is mandatory to perform some mechanical check-us and inspections.
To reach the goal of the refinery and that is of having high mechanical availability, the refinery must have a high level of safety in operating the machineries at a low maintenance cost.
This aspect may be attained only by periodically performing a general stoppage of the refinery.
With concern to scheduled stoppages, Rompetrol followed all these years the same strategy aiming at maintaining the mechanical availability of the refinery.

Concluding this project lead to obtaining the following benefits:
- Operating the installations in optimal safety conditions up to the following planned stoppage;
- Improving the installation efficiency by high mechanical availability;
- Reducing maintenance costs;
- Performing a technical inspection on the machineries;
- Increasing the safety of the equipment in operation;
- Maintaining the capacity of the refinery at its nominal output;
- Performing corrective/preventive full maintenance of the equipment
- Attaining mechanical availability of 96.87% after starting up of the installations.

**The project category of “Storage and Logistics”, also counts:**

## DIESEL FUEL DELIVERY FACILITIES IN THREE DIRECTIONS SIMULTANEOUSLY.

By implementing this project, the following benefits were attained:
- Increase of flexibility on delivery (possibility of simultaneous delivery on more ways: water, rail and road) by increasing the capacity of discharging the Diesel fuel;
- Increase of loading ratio on the line to Berth 9;
- Avoiding stocking limitations by the availability of a higher level of discharging the product;

The project was concluded in April 2015.

## REHABILITATION OF IPPA FACILITY

The benefits of performing this project shall be:
- Improvement of client satisfaction by reducing the times of loading road tankers at terminal IPPA:
- Achieving the sales plan by ensuring certain optimal operating conditions of the terminal and alignment to delivery requirements;
- Elimination of risk on reducing the level of availability of the road ramp by revamping the infra-structure of the terminal, as well as that of the applications.

# II) Commercial Activity

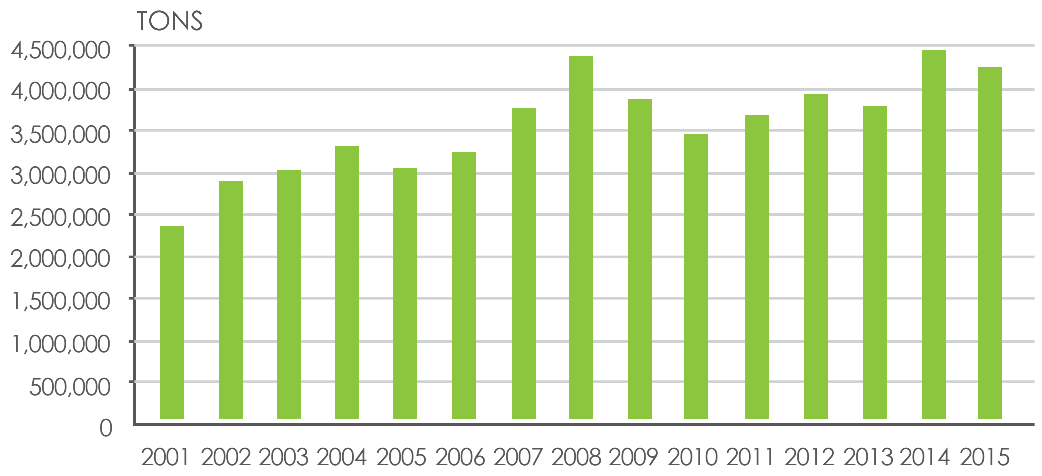
## Rompetrol Rafinare – Petromidia Refinery

### 1. Supply of Raw Materials

| Feedstock acquisition (tons) | 2014 | 2015 |
|---|---|---|
| | 4,939,964 | 4,917,754 |

The quantity of purchased raw materials of 2015 was approximately equal to that of 2014, following the planned overhaul every 5 years.

**Evolution of crude oil volumes purchased by RRC**




In 2015, crude oil purchase was kept at levels approximately equal to those of 2014 (4,199,603 tons, vs 4,422,052 tons in 2014) given that throughout October – November, the refinery underwent through the planned overhaul. Crude oil imports were run exclusively through the groups trading company, KazMunayGas Trading AG.

The volume of raw materials purchased in 2015 from external sources (4,883,472 tons) was close to that of 2014 (4,869,477 tons).

The average price on crude oil purchased in 2015 was much lower (386 USD/ton) to that of 2014 (715 USD/ton) against a dramatic downfall of the international quotations (in 2015 the average quotation for Brent was of 52 USD/bbl (397 USD/ton) vs 99.02 USD/bbl (749 USD/ton) in 2014.

The volume of raw material purchases in the country was in 2015 in amount of 34,282 tons vs the 70,487 tons of the previous year. These are supplemented by the raw material quantities coming from Vega in total quantity of approx. 4,438 tons (7,764 tons in 2014).

**The suppliers of raw materials in the country have been:**

- Mitsubitshi - methanol
- Agrana - bioetanol
- Prio Biocombustibil/Expur/Astra Bioplant - biodiesel
- OMV Petrom - methane – raw material for the Hydrogen plant

### 2. Sales

| Sales of finished products (tons) | |
|---|---|
| 2014 | 4,336,613 |
| 2015 | 4,256,941 |

The quantity of finished goods was kept approximately equal to that of 2014 (downfall of approx. 2%) following the overhaul in October - November 2015, planned every 5 years.

| Value of the sales of finished products (USD) | |
|---|---|
| 2014 | 3,552,744,125 |
| 2015 | 2,117,394,633 |

The valueof the sales in 2015 decreased by approx. 40% vs 2014 against a dramatic downfall of the international quotations, starting with Q4 of 2014 and gaining depth all throughout 2015

**The structure of sales on distribution markets**

| Structure of sales | 2014 | 2015 |
|---|---|---|
| External market | 48% | 50% |
| Domestic market | 52% | 50% |

| Motor fuel sales in 2015 (tons) | | |
|---|---|---|
| Diesel | 2,462,750 | 2,475,248 |
| Gasoline | 1,099,860 | 1,002,851 |

Motor fuels sales slighty decreased in 2015 (by abt 2%) compared to 2014, higher increasing for diesel sales (0.5 %). Share of gasoline in total was 31 % in 2014 and 29 % in 2015; Diesel sales share was of 69 % in 2014 and 71% in 2015. In 2015 a vast turnaround was carried out in the refinery.

# Rompetrol Rafinare – Vega Refinery

The quantitative structure of the deliveries of petroleum products in 2015 is summarized in the following table:

| Products Group | Total Deliveries 2015 | | Internal | | External | |
|---|---|---|---|---|---|---|
| | tons | % of the total sales | tons | % of the total sales | tons | % of the total sales |
| Other gasoline | 97,256 | 29.59 | 3,675 | 3.04 | 93,581 | 44.99 |
| Bitumen | 80,792 | 24.58 | 80,792 | 66.94 | - | 0.00 |
| Heating oil | 7,558 | 2.30 | 7,457 | 6.18 | 101 | 0.05 |
| Hexane | 72,944 | 22.19 | 2,413 | 2.00 | 70,531 | 33.91 |
| Heavy fuel oil | 27,996 | 8.52 | 20,592 | 17.06 | 7,404 | 3.56 |
| Crude and White spirit | 8,744 | 2.66 | 4,921 | 4.08 | 3,823 | 1.84 |
| Ecological solvents | 33,424 | 10.17 | 841 | 0.70 | 32,583 | 15.66 |
| **TOTAL** | **328,713** | **100.00** | **120,691** | **100.00** | **208,022** | **100.00** |

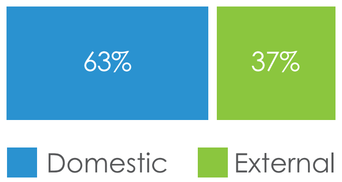
**The main distribution markets abroad have been:**

- Turkey, Hungary, Moldova, Poland for naphta gasoline;
- India, Russia, Turkey, Ukraine, Bulgaria for hexane;
- Germany, Bulgaria, Italia, Moldova, Ukraine for ecological solvents;
- Bulgaria, Moldova and Serbia for white spirit;
- Bulgaria for fuel oil.

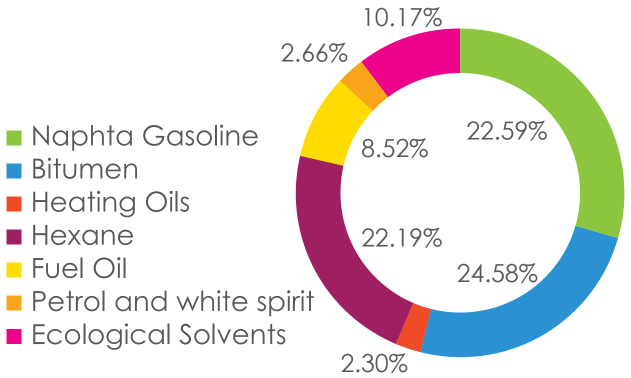
**Distribution market**

The sales in 2015 totalled a quantity of 328,713 tons. Within the external distribution channel, there were sold around 208,022 tons and within the internal distribution channel there were sold around 120,691 tons. The share of finished products sales on distribution markets is shown in the graphic below:

**Structure of sales of finished products on distribution channels (%)**




The white products sales (naphtha gasoline, Ecological solvents, hexane and white spirit) represents approximately 65% of the total sales of 2015.




# Rompetrol Rafinare – the Petrochemical Plant

Rompetrol Rafinare SA, the Petrochemical Plant, is the sole polypropylene (PP) and polyethylene (LDPE, HDPE) producer of Romania.

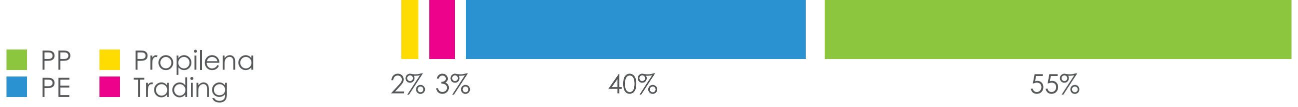
The products are mainly meant for end users, plastic mass processing plants in Romania, as well as those on the regional markets: Bulgaria, Serbia, Ukraine, with which Rompetrol Rafinare S.A. has direct commercial relationships, yet also companies specialized on distribution of petro-chemical products, on various markets throughout Europe, with a higher development level of plastic mass processing industry, such as: Italy, Turkey, or Austria.

Besides its own products, the Company is now actively selling a wide range of petro-chemical products which are not currently produced by the Rompetrol Rafinare – the Petrochemical Plant, but which are in demand on the Romanian market, namely: High density polyethylene variants (HDPE pipe variants), low density polyethylene (LLDPE) and PET.

The sales of Rompetrol Rafinare – Petrochimie Plant amounted in 2015 to a quantity of 149,544 tons.

In 2015, approx. 55% of total sales stand for polypropylene (PP), approx 40% stand for polyethylene (PE), 3% stand for the sales of Propylene and 2% for trading goods sales.

**Product sales 2015 (tons)**




By comparison to 2014, 2015 senses an increase of sales on the domestic market by approx 2% in relation total sales, as following:

- domestic sales account for around 41% of the total sales;
- international sales account for around 59% of the total sales.

**Structure of sales on distribution markets in 2015**

# III) Activity regarding Quality, Health, Work Safety and Environment Protection (QHSE)

Through QHSE specific activities it has been followed to achieve the objectives set for the year 2015. All these have materialized by maintaining the integrated management system quality-environment-health and occupational safety, as confirmed by the recertification audit, carried out by DNV-GL representatives (June 2015).

The major activities carried out in 2015 in order to achieve the QHSE objectives (detailing of the environmental and safety activities are to be found in the relevant chapters of this report):

- System documents have been maintained/developed/revised/reviewed (procedures / work instructions / regulations, etc) in compliance with the requirements of the Group Policy no 1;
- There were performed internal audits, safety audits, inspections in accordance with the planning, in order to identify both weak points and improvement opportunities;
- There have been drawn up specific statistics and reports, with various frequencies (weekly/monthly/quarterly/half-yearly/annual/upon request), in order to meet as well internal requirements as also and legislative requirements and the requirements of other interested parties;
- Overhaul specific safety indicators were established and monitored;
- The certifications on vehicle fuels and bitumen were kept in compliance with the legal requirements / regulations of the European Union;
- The activity at the two work points - Petromidia refinery, with two plants (Refinery and Petrochemical), and Vega refinery have been monitored for purposes of environment protection, pursuant to the Integrated Environment and Water Management Authorizations, as well as in what regards the compliance requirements under the Greenhouse Gas Authorization;
- Have been continued both programs according to environmental strategy and project to raise Petromidia and Vega employees' safety awareness.
- There have been taken actions for personnel recognition and motivation, there were organized and our employees join in CSR projects:
- Prize winning competition 1.Life/1.Viață – safety photographs on holiday;
- Workshop "Principles for a healthy life and physical work-out";
- Mini-competition on safety subjects for the children to have visited the Refinery, within the event
- "Environment International Day" – activity of collecting the waste materials on Năvodari Beach;
- "Children's International Day" – Open Doors Day at Petromidia and Vega Refinery;
- "Occupational Safety International Day" – 30 year anniversary since the start up of the coke installation;
- "International Women's Day" – prize winning competition;
- "Native language International Day" – prize winning competition run with the support of RadioVox Pem.

# Perspectives

The company made efforts to maintain its capacity to cover the current debts from the current assets; however, the liquidity ratio decreased to 0.33 in 2015 vs 0.35 in 2014. Excluding receivables and liabilities with affiliates, the value of the current liquidity indicator is over – uniting (1.67), which indicates that the Company is prepared to face certain potential market liquidity shocks.

The liquidity risk derives from the possibility that the financial sources may not be available in such a way as to meet the obligations of the company in due time. The Company management follows the liquidity level daily, as well as ensuring that its obligations towards suppliers, the state budget, local budgets, etc. are met in accordance with their contingency, with the aid of the expected cash. The coefficients of current and immediate liquidity are monitored at all times.
Knowing the effects of these liquidity risks constitutes one of the concerns of the management of the company Rompetrol Rafinare S.A. in conducting the economic-financial activity in a smooth way. Ensuring continuous funding sources also to the planned levels has been made possible by an appropriate credit-granting policy related to identifying the current needs and the needs for investments.

The activity of the company will continue to be influenced by developments in the international situation as far as the market of crude oil and petroleum products is concerned, as well as by a series of internal macroeconomic factors.

In the specific market context of petroleum products, marked by a high volatility of prices, the management of the company has implemented a policy of risk management with the main objective: the mitigation of risk regarding the price of crude oil and petroleum products in the financial results of the company. In addition, a major concern has also been granted to the policy of risk management regarding the development of the exchange rate and the interest rate.

### THE COMPANY IS AFFECTED BY THE VOLATILITY OF CRUDE OIL, OIL PRODUCT AND REFINERY MARGIN PRICES.

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

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock) is hedged using future contracts traded on ICE Exchange and some OTC instruments for the secondary risks. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Company, hence price fluctuations will not affect the cash-flow.
Trading activities are separated into physical (purchase from third parties other than KazmunayGas Group, and sales to third parties or Inter-company) and paper trades (for economic hedging purposes). Each physical transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased).
The Company sells or buys the equivalent number of future contracts. This financial trade is done only to hedge the risk of the price risk and not to gain from the trading of these instruments.
The company also had hedge operations for refinery margins.


# 03 TRADING & SUPPLY CHAIN

# General Presentation

The Trading and Supply Chain Division (TSC) of KMG International coordinates the Group's entire supply and distribution chain of raw materials and petroleum products, both in domestic and international markets.

TSC ensures the raw materials supply for Petromidia Navodari and Vega Ploiesti refineries, as well as for the Group's petrochemical division.

It also ensures the transfer of petroleum products to the Group's subsidiaries in Romania, Bulgaria, Moldova, Georgia, France, Spain, Turkey, Ukraine, and to its partners in the Black Sea, Caspian and Mediterranean Sea regions.


**THE FUNCTIONS OF THE TRADING AND SUPPLY CHAIN DIVISION**

**A.** Planning and optimisation: 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 wholesales in the Romanian market
**C.** Support operations: consist in contracting activities and supply optimization planning
**D.** Logistics: improve the flows of logistic infrastructure activities at the Group level.

KMG International's long-term strategy for the Trading and Supply Chain Division will focus on the development of competencies, export sales of crude oil and oil products, maximization of crude oil and oil products export sales margin, entry to the perspective market of trading operations in South-Eastern Asia, 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.

# Tranding and Supply Chain objectives

**PLANNING & OPTIMIZATION:**
Improve operational forecast accuracy in order to optimize both 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
Feasibility study for the new LPG terminal in Ploiesti
Completion of TAS for Downstream & Gas, and Refinery
Completion of Web Scheduling for Transport (WST)
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

# Key Financial and Operational figures

The performance achieved by the Trading and Supply Chain Division in 2015 is closely linked to the historical records obtained by Petromidia refinery in 2014, namely more than 4.8 million tons of raw materials processed, which resulted in 4.66 million tons of petroleum products, down by only 1.5% compared to 2014, despite the refinery turnaround in October and November 2015.

Group trading activities (sales of finished products, purchase of raw materials for production units) registered an upward trend in 2015 with 17,6 million tons traded, of which: KMGT 14.88 million tons, Downstream Trading Channels 1.64 million tons and Niche Products 1.15 million tons (13% higher than in 2014, with traded volumes of 15,6 million tons).

These volumes were reflected in the Supply Chain Division, which succeeded to manage internally about 452 ships and barges of which 407 ships in Midia port and 45 ships in the port of Constanta, appx 660 trains that left the refinery, seven storages in Romania and hundreds of tanks and Rompetrol filling stations.

Of the 14.88 million tons traded by KMGT in 2015, 8.40 million tons (vs. 7.11 million tons in 2014) were traded outside of KMGI Group, generating a Non-Group Contribution of USD 21.2 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.

**Also, being part of the "Change for Good" project in 2015, TSC recorded a net benefit of USD 18.90 million, of which:**

- USD 4,43 million generated by alternative feedstock processing (e.g. SRGO,SRFO) in 2015 vs 3.1 million in 2014,
- USD 3.65 million due to the optimization of yields, run rate and units' capacities (Siberian, Azeri Light, Kirkuk blend),
- USD 2.56 million due to optimization of feedstock supply premiums by means of **transparent tender process** (for bioethanol, biodiesel and methanol)
- No out of stocks situations during turnaround,
- USD 2.25 million due to 3rd Party business initiatives,
- USD 5.93 million due to optimization of logistics activities.

# Plans & Perspectives for 2016

- Replace Urals in order to bring additional economic benefits
- SRGO supply as feedstock replacement
- Continuous development of the Asia - Pacific Market by participating in Indonesian tenders; creation of opportunity for Nigerian crude
- Intensify efforts in the Black Sea and Mediterranean region, where KMG Trading is already a well-known player, being able to actively supply the market with all three low sulfur-grade fuels (Gasoline, Diesel, Jet), as well as crude oil,
- Development and supply market for new petrochemical grades
- Continuous optimization of all logistical processes to properly respond to delivery challenges
- Mitigate the risk of loaded to maximum draft allowed the handy tankers access in Midia port
- Resume port piloting and towage services –
- Prepare the proposal for conversion of molasses terminal into bunkering station
- Prepare proposal for Midia port administration takeover project
- New tender for secondary distribution in Petrochemicals.

# Improvement of Operations and Assets (Logistics, Marine Terminal, Berths 1-4 and 9)

**Achievements in 2015:**

- SPM HOSES complete changeout, a USD 3.5 mill CAPEX project, successfully finalized in only 19 days' time with 200 kUSD in savings
- BB TUGS rented by MMT, allowing MMT to resume the port towage service for 3rd parties
- Truck loading process improvement: at Petromidia started in 2015 and scheduled to be completed in Q3 2016 with the following main benefits:
- truck loading rate increase
- measurement accuracy.
- Improvement of the shipping department' performance, by reducing costs compared to market price.
- Development of logistics in Turkey, enabling the development of trading operations in this market; developing active customer base in Turkey.
- Optimisation of operational costs, leading to increasing margins.
- Consolidation of relationships with Petromidia Refinery customers, also by concluding forward contracts for 2015;
- Reduction of financial costs by optimising conditions for the use of financing credit lines;

# A. Planning and Optimisation Department

This department elaborates optimum utility production / consumption plans, establishes and improves performance at Petromidia and Vega refineries by identifying solutions to lower costs and maximize production. Planning includes optimising raw material supply chain, operational capacities of installations, providing commercial requirements of petroleum products and exchanges between refineries and the petrochemical division (Petromidia to ensure raw material supply to Vega Ploiesti refinery and provide feedstock for the petrochemical division), in order to maximize the profit margin.

## Price evolution in 2015 for Oil and Petroleum Products

**CRUDE**

Brent prices averaged around $53.5 per barrel, marking a 46% fall from 2014 levels. Brent started the year at around $57 per barrel and, following a strengthening period over the spring months, reached its peak for 2015 at almost $68 per barrel at the beginning of May. The second half of the year saw prices tumble again and end the year almost $20 per barrel lower than at the start. Prices reached their lowest point, of around $36 per barrel, in the second half of December, following a slide started after the OPEC meeting in Vienna in early December – where the group did not offer the usual formality of acknowledging a collective production ceiling. These levels have not been seen on consistent basis since 2004.

The Urals Med differential to Dated Brent was fairly steady y-o-y, remaining at a discount of around $0.95 per barrel to the North Sea benchmark.

**PRODUCTS**

2015 was a banner year for Mediterranean gasoline cracks. Cracks peaked in mid-July, at the height of the summer driving season for the northern hemisphere, but were strong throughout the year. While some upside was seen in Med gasoline demand growth as a result of lower oil prices, the most significant support to cracks came from further afield, with soaring gasoline demand in the US, Africa, and the Middle East allowing for substantially higher exports.

Med middle distillate cracks spent much of 2015 near the bottom of their historic range, with particularly pronounced weakness observed towards the end of the year.

**REFINING MARGINS**

Mediterranean refining margins averaged $5.69/bbl over 2015, an improvement of more than $3.80 compared to 2014 levels. Med refiners took advantage of this improved margin environment by steadily increasing crude intake, to a yearly average of 4.1 million b/d. Lower feedstock costs played a critical role in boosting margins, with Med Urals prices averaging just $51.53 for the year, a decline by 47% y-o-y, as the global oil market continued to struggle with oversupply.

## The impact of international Oil prices on the planning and optimization activities

- Margins performance has been affected-2015 crude prices were still volatile, despite the fact that they remained at a low level in the market (Dated Brent's daily highest point in the year was 66.7$/bbl., reached in May, while the lowest point was 35.6$/bbl., in December, driven by the oversupply in the market (both US stocks and US production reached the highest level of all times). Optimization of other feedstock supply premiums by means of transparent tender process (for bioethanol, biodiesel and methanol)-
- Refinery margin optimization by improving crude diet, product yields and other feedstock (like SRGO,SRFO)

# B. Trading activity

KMG Trading AG (KMGT), based in Switzerland – Lugano, is the Group's trading company, resulted rfrom the merger of KazMunayGas Trade House and Vector Energy AG.

In 2015, KMG Trading successfully continued the its role of trading-arm of the Group, ensuring all feedstock imports to the Petromidia Refinery and product exports in the abroad markets.

Moreover, KMG Trading has strengthened its presence in the Asia - Pacific Market, by trading 4mln tons alone in 2015, while also intensifying its efforts in the Eastern European market, with crude oil sales in the region of 4.2mln tons and 1.9mln tons of products placed (from the market and Petromidia Refinery source), in total higher by 0.65 mln tons than in 2014. In the Black Sea and Mediterranean region, KMG Trading is known as a top player, being able to actively supply the market with all three low-sulphur grades (Gasoline,Diesel,-Jet), as well as crude oil.

**B.1. OVERVIEW OF PETROMIDIA REFINED PRODUCT TRADING:**

Trading sales of Petromidia products were slightly lower than in the previous year, as a result of a 40-day turnaround which allowed:

- the increase in Refinery revenues by better recovery of highly valuable white products vs. less valuable black products (from 41% to 43% in the Crude Distillation Unit)
- the possibility to run the Refinery with maximum throughput (14.000 tons/day) under favorable market conditions
- the increased Refinery Energy efficiency by 3% (Dec 2015 vs. Dec 2014).

In 2015, Petromidia reported sales of finished products amounting to 4.62 million tons, a decrease by 1.5% compared to the previous year (4.73 million tons in 2014). The domestic sales of Petromidia represented 54% of total sales, 10% higher than in 2014, when they reached 44%.

**2015 Achivements:**

- Processing cost of 16.8 $/mt, the lowest in the last 10 years
- 15.2 kt/day total feedstock processed reached in 2015 (above historical figure reached in 2014 of 13.8 kt/day) and a record for Petromidia refinery since 1979
- 85.7%wt White products yield (valuable products), including components, reported to total feedstock processed, second year in a row when a historical level was reached

**B.2. TRADING OF NICHE PRODUCTS: VEGA SPECIAL PRODUCTS, PETROCHEMICAL PRODUCTS AND LPG**

**Vega:**

**OPERATIONAL RECORDS IN 2015:**

- 70.6 ktons of Hexane produced in Vega in 2015, highest ever reached (hexane yield of 48%wt, the highest ever reached by Vega refinery, due to the superior quality of the Raffinate feedstock received from Petromidia refinery).
- Over 80.8 ktons of bitumen produced in Vega in 2015, highest ever reached.

In 2015, sales amounted to 328,713 tons, of which 208,022 tons on external markets and 120,691 tons on the domestic market. White product sales (naphtha, ecological solvents, n-hexane and white spirit) represent about 65 % of total sales in 2015.

# Petrochemical Products

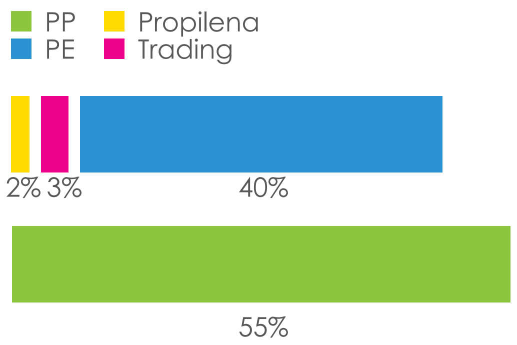
The Petrochemical Division within Rompetrol Rafinare is the sole producer of polypropylene (PP) and polyethylene (LDPE, HDPE) in Romania.

The products are intended mainly for end consumers, plastics-manufacturing plants in Romania, as well as across the regional market, namely Bulgaria, Serbia, Ukraine, Moldova, with which Rompetrol Rafinare trades directly. Also, the range of products manufactured by Rompetrol Rafinare serves companies specialized in petrochemical distribution in various European markets with more developed plastics-processing industry, such as Italy, Turkey or Austria. Aside from its own products, the company also trades a wide range of petrochemical products which, despite not being included in the product portfolio of the Petrochemical Division at the moment, are in demand in the Romanian market: types of high-density polyethylene (HDPE types for pipe production), low-density polyethylene (LDPE) and PET.

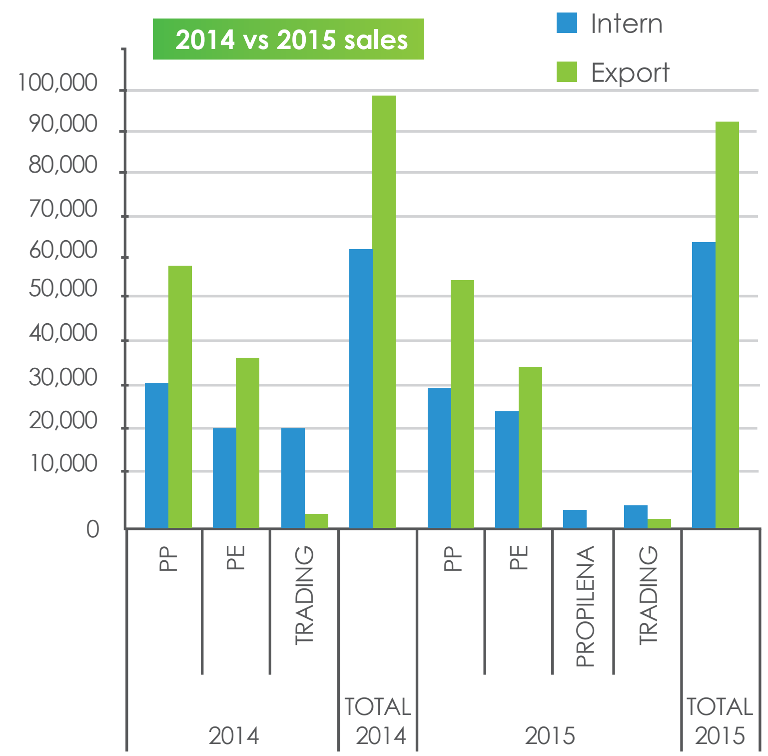
Total volumes sold by the Petrochemical Division in 2015 reached 149,544 tons.

In 2015, approximately 55% of total sales were polypropylene (PP), around 40% were polyethylene (PE), while propylene and trading merchandise sales reached 3% and 2% respectively.

**Product sales 2015 (tons)**



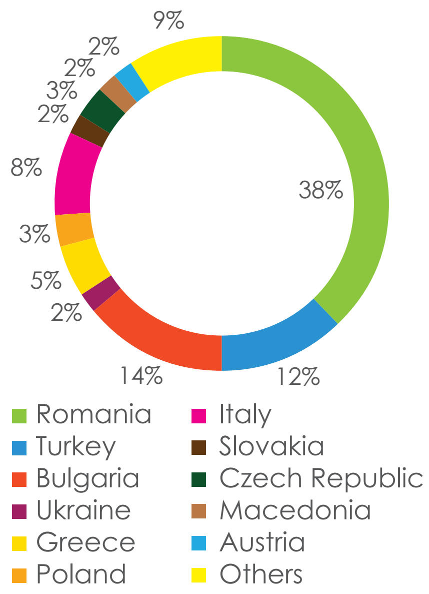

**Structure of sales on distribution markets in 2015**


Compared to 2014, domestic sales in 2015 registered a 2% increase relative total sales, as follows:

- domestic sales represent approx. 41% of total sales
- foreign sales represent around 59% of total sales

**Sales per destinations 2015**




## ACHIEVEMENTS:

- **170 kt total polymer production,**
- **Development of new grades** in 2015, 6.8% of the total PP production is represented by new grades

## NEW PRODUCTS

New grades development: PP RTF3 for thermoforming applications, with excellent transparency, was produced, tested and entered regular production. Estimated improvement in EBITDA: 240 kUSD/year; PP RCF9 for cast film applications, with good transparency and strength for food and non-food packaging use. A trial batch was produced and tested at the biggest packaging company in Europe, Amcor.

## PLANS / DIRECTIONS FOR 2016

- Continuous development of the Asia-Pacific Market
- Intensify efforts in the Black Sea and Mediterranean region, where KMG Trading is already known as an established player, being able to actively supply the market with all three low-sulphur grades (Gasoline, Diesel, Jet), as well as crude oil,
- Development and supply market for new petrochemical grades

- Increase Jet sales on domestic market by 30%, up to 170 kt
- Increase Petroleum coke sales to domestic users by 5% and improve the economics
- Increase Hexane exports on Turkish market, and improve prices
- Increase Diesel sales on trading channel in Romania by at least 25%
- Increase synergy between Niche products and Downstream
- Increase LPG domestic wholesale segment by 20 %
- Opportunities may arise with the lift of the Iranian embargo (ethylene, hexane, crude etc.)
- Enhance sales through new developed products with high added value (e.g. PP RTF3, PP RCF9).

## LPG SALES

**In 2015,** the total amount of LPG produced in the Petromidia refinery was about 214,000 tons, down by 36% compared to 2014. Group sales decreased by 13% versus 2014, while sales to third parties increased with 18,567 tons, or by 24% in 2014 over the previ-

ous year. Given the increasing amount of LPG produced, the company aims to develop a logistic base in order to optimise delivery of LPG.
Achievements:
- Refurbishment of 18 RGS own skids
- Development of RGS network by placing 3 skids in new DWS Stations in Moinesti, Petea and Ploiesti (ring road)
- First 9 LPG DODO contracts were signed
- Minimization of financial risks through trade credit risk insurance implementation
- SAP successful implementation.

**OBJECTIVES FOR 2016:**

Retail network development

**Launch & implement Retail models for auto gas**
- new LPG stations will be opened and operated under the CODO model until the end of 2016

**Rebranding of POS managed through Rompetrol Gas auto gas skids**

- 61 Skids were refurbished in 2015, with 149 more to be refurbished by the end of 2016
- 50 RGS skids in partner stations to be refurbished as part of the rebranding process by the end of 2016.

**Improve market coverage of cylinder POS distribution**

- Develop and conduct an ample market research in order to analyze market preferences and trends.
- Acting according to market trends and adapting the commercial policy accordingly during the year.

**COMMERCIAL DEVELOPMENT**

**Auto Gas Retail, Cylinder Retail, Propane to W2C**
- Transfer of sales force competence from RGS to DWS.
- Implementation of new Commercial policy.
- Development and implementation of marketing campaign for end consumers
- Development and implementation of loyalty programs for end consumers

# C. Support Operations

**They are the main refining operations** that support the trading and supply chain activity.

Improving supply activity has resulted in improved business programming and delivery of finished products from Petromidia refinery by:

- Groundage cost optimization;
- reducing distressed sales in the refinery;
- maintaining stocks within the programmed targets and avoiding stock depletion to not disrupt trading activity; Optimizing acquisition cost of alternative feedstock –better negotiation and new partnerships for biodiesel and bioethanol.

**ACHIEVEMENTS IN 2015**
- Optimization of other feedstock supply premiums by means of transparent RFP process (for bioethanol, biodiesel and methanol)
- No out-of-stock situations during turnaround.

**PLANS & PERSPECTIVES FOR 2016**
- to continue the direction of alternative crudes and feedstock processing (gasoil, fuel oil)
- further development of the refinery's delivery activity by reducing demurrage costs, maintaining stock levels to ensure sale flows on all distribution channels.
- further optimisation of premium levels applied to other materials.

**The main operations in the distribution segment** (Rompetrol Downstream) that supported the trading and supply chain activity.

**ACHIEVEMENTS IN 2015:**
**Retail Services:**
- Implementation of new commercial policy for Rompetrol Downstream on Business to Business Fleet sales channel
- Implementation new commercial policy for RGS – on Retail ATG and Cylinder sales channel

**Wholesales Services:**
- Alignment of all the settings associated to customers and contracts for Rompetrol Gas to the new structure in SAP;
- Implementation of new commercial policy for Rompetrol Gas wholesale channel;

**PLANS FOR 2016:**
- Improved customer relationships through better management of contracts after the implementation of electronic archiving solutions and its integration with SAP and CRM application;
- Reduced processing time of orders in the wholesale segment
- Increased number of orders processed in less than 1 hour

# D. The Logistic activity of the Trading and Supply Chain division

### MIDIA MARINE TERMINAL LOGISTICS

In 2014, the logistics activities of Petromidia and Vega were transferred from Rompetrol Rafinare SA to Midia Marine Terminal.

**Midia Marine Terminal manages:**
1. Offshore operations of the oil terminal and oil depots
2. Onshore operations of oil and gas terminals
3. Railroad and truck operations in Petromidia and Vega

Improvements to operations and assets (logistics, terminal, berths) - 2015 measures and results

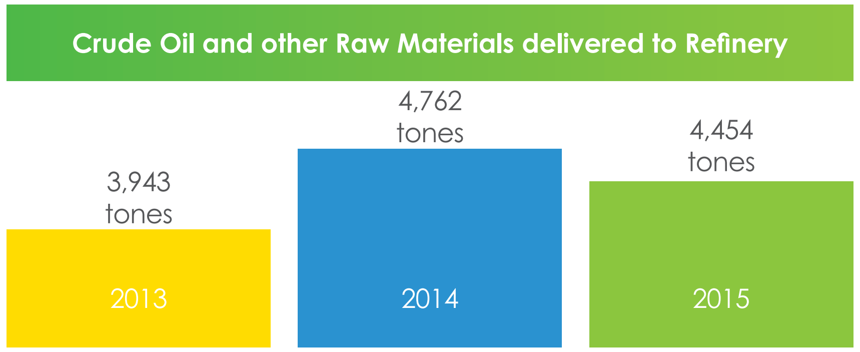
MMT received two new tugboats in July, thus increasing by approximately 30% the productivity of crude oil unloading and offshore Midia SPM terminal maintenance operations. Moreover, tug/pilot licenses were renewed.

Also in July, MMT completed the USD 3.5 million CAPEX project which saw the full change of marine hoses, a mandatory maintenance project in order to keep the terminal's class and environmental standard.
Jet A1 exports were fully transferred to Midia Port, thus generating significant savings.
The railway logistics team negotiated railroad transportation contracts securing significant discounts compared to previous years.

Company management was concerned about keeping operating costs under control while maintaining all terminals and ramps at a high level of productivity and safety, contributing in this way to the historic records obtained by the refinery.

Crude receipt losses were kept to a level of excellence, 0.1%.

Evolution of crude/product volumes sold inside the Group and to third parties through Midia Port terminals
- 2014 - berth 4 = 25 ships and barges (20 SRGO and SRFO import ships + 5 VGO export barges)
- berth 9 = 473 ships and product barges (30 import and433 export)
- 2015 - berth 4 = 21 ships (21 SRGO import ships)
- berth 9 = 489 ships and product barges (42 import si 447 export)




| USD | 2014 | 2015 |
|---|---|---|
| Turnover | 19,487,651 | 19,072,725 |
| EBITDA | 7,916,130 | 7,140,420 |

### PLANS & PERSPECTIVES FOR 2016

Resuming tug/pilot services in Midia Port
Supporting business development initiatives in Midia Port
Increasing productivity of PEM and Vega ramps
Ensuring environmental and occupational safety in all areas of responsibility.

### RAILROAD AND TRUCK OPERATIONS IN PETROMIDIA AND VEGA

Total volumes operated by Petromidia and Vega ramps were up by 5% in 2015 compared to 2014, mainly due to the refinery's output increase to full capacity amid increasing demand and optimization of logistics activities and being influenced by the general turnaround of the refinery in Oct-Nov 2015.

### PETROMIDIA RAMPS

A 0.7% increase was registered by rail-loaded volumes. VEGA shipments of raw materials rose by 6%.
JET shipments for exports via railroad to the berths increased by 79%.
Total truck-loaded volumes rose by 14%.
Gasoline and diesel volumes were up by 27%, mainly due to exports.
Historic record of truck loads – 85 KT – in July, 2015.

### VEGA RAMPS

Increase in total loaded/unloaded volumes by 6.8%
Historic record of bitumen loads – 80.7 KT, up by 56%
7% increase in hexane volumes, 21% in ecologic solvents, 44% in heating oil

### REFINERY PRIMARY AND SECONDARY LOGISTICS

Railroad transported/operated volumes – up by 1.4%
Vega bitumen volumes transported by trucks – up by 78%
Petrochemical product transports – up by 10%

### LOGISTICS PROJECTS:

- SPM HOSES complete changeout
- BB TUGS rented by MMT
- IPPA loading process improvement
- Feasibility study for the new LPG terminal in Ploiesti
- Completion of Web Scheduling for Transport (WST)
- Completion of TAS for Downstream & Gas, and Refinery
- Implementation of CMMS (Computerized Maintenance

Management Software) for depot maintenance, for better control over depot assets and maintenance costs;

### BYRON SHIPPING LOGISTICS

Byron Shipping plays a crucial role in optimising the supply chain activity within KMG International. Byron Maritime Agency has been ensuring the naval transport related services for nearly four years, representing the interests of ship owners in all Romanian ports and of KMG International Group. Our main activity consists in sea and river ship agency: In 2014, the total number of ships and barges operated was 465, of which 416 in Midia port and 49 ships in Constanta.
In 2015 Byron Shipping operated 452 ships and barges, of which 407 ships in Midia port and 45 ships in the port of Constanta.

### PLANS / DIRECTIONS FOR 2016

- to maintain strong market share, to identify new partners and market niches
- to improve services through new techniques

### ROMPETROL DOWNSTREAM/ ROMPETROL GAS LOGISTICS

The logistic department is responsible with the transportation and manipulation of products along the operational chain, from the source to end-users.

**Primary distribution**
**Primary Logistics Downstream:**
Lower cost per transported ton in 2015 by 27,5%.
**Primary Logistics Gas:**
Lower cost per transported ton in 2015 by 6,7%

### SECONDARY DISTRIBUTION

**Secondary Logistics Downstream:**
Lower cost per transported ton in 2015 by 17%.
**Secondary Logistics Gas:**
Lower cost per transported ton in 2015,by 29,2%.

### DEPOT OPERATIONS

**Rompetrol Downstream depots**
- OPEX decreased both in Downstream depots (by 36.1%) and Gas depots (by 28.63%)

**Rompetrol Downstream depots**
- We provided business support for completion of the design phase and implementation of the Loading module for Terminal Automation System, in Mogosoaia and Arad Depots
- The Go live 1st phase OPEN TAS was finalized (for automatic communication with flow meters)
- Inventory losses were practically zero; Operational costs were lower by 36% compared to budget.

**Rompetrol Gas depots**
- Finalized installation of the new equipment to automatize the density measurement from each tank and accurate stock indicatives
- Finished repairs of the truck weighbridge in Pantelimon LPG Depot in order to have accurate data on loadings.
- QHSE Audits in RGS LPG Depots were performed by Germanisher Lloyd on behalf of KMG, were we obtained very good results and noticeable improvements.
- The technical revision process at due date was initiated for Rompetrol Cylinders in order to be in line with the current legislation.
- Completed laboratories in Arad and Bacau in order to have the test reports in time. The personnel was trained at RQC HQ and on site by the equipment producers and RQC representatives in order to start the testing process.

### ROMPETROL UKRAINE

Political developments in Ukraine, which led to economic instability and insecurity in the region, have determined the management and shareholders to change the operating model of the business in Ukraine to lower the risk for the entire activity of the subsidiary.


# 04 RETAIL AND MARKETING

# Retail and Marketing


KMG International's long-term strategy in the Retail and Marketing Business Unit is focused on the increase of sales margins, market share consolidation, brand development and the increase of customer satisfaction.

### 1.R&M OBJECTIVES

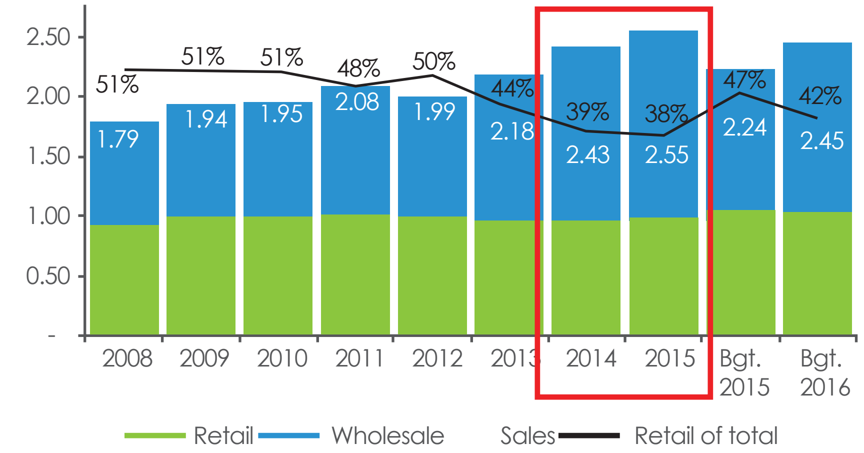
- To actively develop the retail network, by adding new stations and continuing implementation of the rebranding program- new visual identity for Rompetrol filling stations, including Rompetrol "Partener" stations, as well as new gastro & shop concept.
- To increase operational efficiency of retail sales by optimizing control and processes, including wholesale activities.
- To improve the quality of services and products
- To consolidate retail market share in Romania, Moldova, Bulgaria and Georgia.
- To organically develop activity in France and Spain by means of increasing the existing assets' return on investment.

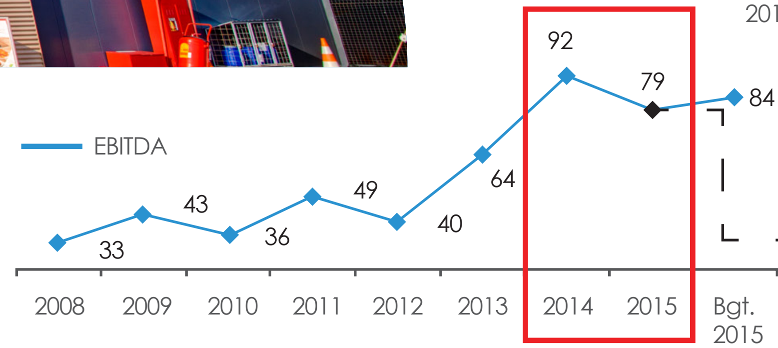
### 2. RETAIL AND MARKETING INITIATIVES

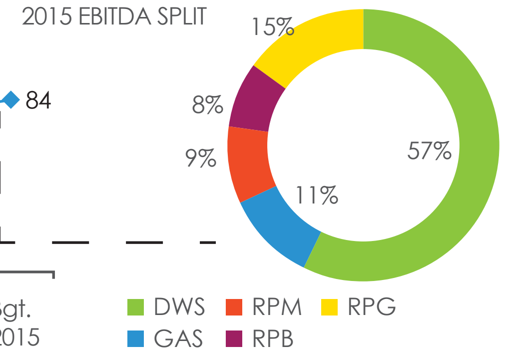
- Maximization of sales across profitable consumer channels to achieve optimal financial results.
- Maximization of sales by involving filling station Dealers into the sales process, targeting new customer segments.
- Active investments in communication & loyalty programs for customers in order to increase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

### 3. R&M KEY ACHIEVEMENTS IN 2015

- Record sales volumes of 2.55 mln. tons, +4.9% vs. 2014
- EBITDA of $79 m, with Downstream Romania bringing 57% ($45.6 m) of this total amount, followed by Rompetrol Georgia, with 15% ($11.65 m), and Rompetrol Gas with 11% ($8.56 m).
- Record sales of 1,467 ktons for Rompetrol Downstream Romania
- The rebranding and CODO model implementation in Romania resulted in market share increase in the main profitable COCO segment;




### CONSUMER MARKET IN ROMANIA

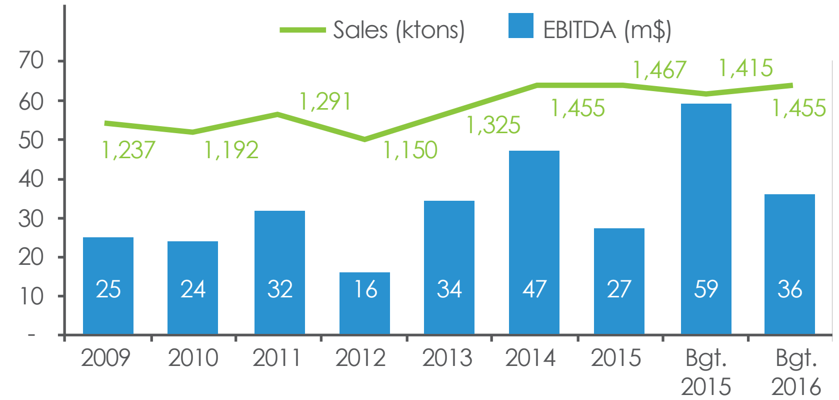
Fuel consumption in Romania in the last 3 years registered an increasing trend (+2.2% in 2014 and 4.8% in 2015) – total consumption in 2015 reaching around 6 million tons. In 2015, there was no significant change in the new market players' operations.

In 2015, retail consumption slightly increased, by about 4%, mainly due to the decreasing trend of pump prices for all products, determined by the drastic drop in international oil prices.

Retail is the main market segment, with a 68% share in 2015. In terms of products, diesel consumption maintained the previous years' trend, representing around 70% of total fuels consumed in Romania.

### 4. ROMPETROL DOWNSTREAM RESULTS AND MAIN PROJECTS

results and main projects
The total fuel sales registered a record of 1,467 ktons in 2015. Intensive development of retail assets, optimization of current operations and Change for Good initiatives aimed at improving all areas of activity allowed us to diminish the negative impact generated by lower margins and reach an EBITDA of USD 27 m.




## MAIN PROJECTS

**a)** Rebranding of filling stations

- 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 3 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.

In 2015, the new Rompetrol Brand Book was finalized and validated, being the reference used to standardize the construction of new stations and rebranding of the existing network. The business objective of the project was to consolidate the retail network's image in the following the rebranding of the entire distribution network by reinforcing one single and fresh image in the retail market, while also consolidating the brand image.

By the end of 2015, the company completed rebranding the exterior of 121 stations, and refurbished the shop area in 74 stations. Savings obtained during the implementation of the COCO network rebranding were invested in the rebranding of 90 DODO stations, in order to align the DODO network to the new Rompetrol image. By the end of 2015, 38 DODO stations went through the rebranding process.

**b)** New concept for Gas Stations' Shop and Bar

- Development / Improvement of the quality of services provided by the filling stations
- Implementation of a new planogram and shop & gastro assortment

The new shop & gastro concept of the Rompetrol station, developed as a significant component of the new retail concept, aims to create a memorable customer experience and also to increase the non-fuel sales. The concept was implemented as a pilot in 2014, being extended in 2015 to all Rompetrol stations in Romania. By the end of 2015, 80 stations had completed the implementation of the new concept.

For the new shop, our architects and design specialists combined warm colors with natural textures in a minimalistic design, creating a more welcoming and relaxing atmosphere.

The care for details is present in the decorations and mix of elements, as well as in product merchandising and their clear differentiation by categories. Therefore, the customers can easily find what they are looking for, without wasting time. Also, the portfolio of products provided to Rompetrol customers was diversified and improved in order to contribute to the general sales of the stations. Moreover, a new assortment was developed in the gastro area, a new concept of customizable sandwiches which are assembled in front of the customer.

The novelties of the new concept differentiate Rompetrol from other market players, being in line with the company's long-term strategy.

## DEVELOPMENT OF THE RETAIL NETWORK IN ROMANIA

By the end of 2015, 6 new stations were open, of which one in Bucharest.

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

Several Change for Good initiatives were launched in 2014, having an impact in the 2015 results:

- 196 stations switched to a new operating model, generating a better exploitation of the commercial potential of each station.
- Customer loyalty and asset deployment was improved by refurbishing and relocation of Internal Bases, thus generating a 7% sales increase on this channel and an increase in number of customers by 5%.

At the end of 2015, Rompetrol Downstream was operating 701 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 deposits all over the country (Arad, Craiova, Mogoşoaia, Simleu Silvaniei, Vatra Dornei and Zărneşti) and one on the premises of the Petromidia Refinery.

## PLANS FOR 2016

- Implement new initiatives as a differentiating element fromthe 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 and energizing non-fuel sales
- Continue network rebranding in order to increase and consolidate brand power

# Rompetrol Moldova


- Increased sales in Retail, volumes increased by 34 %
- Increased sales in Wholesale, volumes increased by 43%
- RPM jumped from 3rd place in 2014, in terms of retail market share, to the 2nd in 2015.

Rompetrol Moldova opened 5 new filling stations in 2015, closing the year with 65 filling stations. 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 34% and by 43% in the Wholesale channel, which generated a total increase of volumes by 39% in 2015 vs. 2014. These achievements brought Rompetrol Moldova an estimated retail market share of 20% and an estimated total market share of 40%.

All the fuels sold across the Rompetrol local network are imported exclusively from Petromidia refinery.

The company also aims to increase revenues from fuel sales related activities (shop), thus it invested in the development of 6 stores to serve the stations. In 2015, shop revenues increased by 53% vs 2014, to MDL 4.1 mil. (approx. 218 KUSD).

The company also registered a record EBITDA of USD 7,4 million, driven by significant increase in volumes sold. Rompetrol Moldova has full coverage in Chisinau, where the total number of cars registered is approximately 35 % of the total in the country.
In addition to the 65 stations, the company also owns 4 stations, located in the north of Moldova, which sell exclusively LPG, and storage capabilities in Târnova (only LPG) and Chisinau, with a total capacity of 6,000 cbm. The company currently sells LPG in almost half of the stations operated and the enitire amount of LPG is imported from Kazakhstan.
Rompetrol Moldova also operates 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.

## PLANS FOR 2016

- to increase retail market share to 25% and consolidate the 2nd position on the retail market in Moldova,
- to open 20 new shops at stations, by this achieving a total number of 45 shops, increasing the non-fuel revenues
- to increase the network with 14 more filling stations.

In 2015, Rompetrol Moldova continued the development of the filling station network, opening 5 New DOCO stations. The overall volumes sold increased by 39% in 2015 compared to 2014: record sales increase in Retail by 34% against 2014 and sales increase in Wholesale channel by 43% against 2014. Estimated Market Share increased by almost 5% in 2015 compared to 2014 and Rompetrol Moldova registered a record financial result for the last years.

# Rompetrol Bulgaria

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 2015, Rompetrol Bulgaria showed remarkable positive results, including:

- Increase of total market share in 2015 to 11.2% (compared to 8.7% in 2014)
- Increase of retail market share in 2015 to 4.17% (compared to 4.13% in 2014)
- 39% growth in overall sales volumes due to increased wholesale activities

RPB strategy for development includes a plan for further optimization of the retail network. As part of the implementation of this plan, the company:

- 2 gas stations were transferred from DODO to CODO model (visible positive results from the change)
- Relocated a lower profitability station in Stara Zagora with new site in the city
- Closed 1 gas station with constant unsatisfactory results (Vidin); replacement in town in process of investigation
- Terminated partnership with a franchisee

In August, 2015, the rebranding of the first gas station in Bulgaria was concluded – located in the capital. The rebranded visual was received very positively by customers, resulting in a significant sales increase for this site – an average of 9% (10% on cash sales).

In 2015, RPB implemented an integrated Marketing program including two significant retail marketing campaigns and an Efix image campaign. The retail marketing campaigns were executed in summer and winter, and the Efix campaign in autumn. The average increase in sales as an effect of the retail campaign exceeds 6%. The Efix image campaign increased prompted brand awareness up to 14% compared to 9% back in 2013.

The 39% growth in overall sales is a remarkable result, showing a stable trend of positive development. One of the main reasons behind this result is the implementation of a new Commercial policy for the Wholesale segment, affecting in a positive way the total sales results. The growth in the Wholesale segment itself is even more impressive – 60%.

RPB also reports a significant increase in EBITDA - despite the challenges in the local and international markets, the company marked a 0.2 mil growth - from $ 5,527,756 in 2014 to $ 5,757,981 in 2015.

In 2015, Rompetrol Bulgaria improved its total sales for the second consecutive year, reaching 286 ktons. This increase in sales, by almost 40% compared to the previous year, is the highest result in RPB in the last 8 years.

**PLANS FOR 2016**

At the end of 2015, RPB operated a network of 55 stations. The main strategic goal for 2016 is to develop the network and further strengthen its position in the market. The company has an ambitious plan to open new stations over the following couple of years.

# Rompetrol Georgia


■ Increase retail sales by 16%
■ increase volumes on wholesale channel by 56%
■ 3 new stations were added to the network under the new Rompetrol logo

Rompetrol Georgia positioned itself on the market as a high quality European fuel distributor, providing Euro 5 products from Petromidia refinery.

The local market remained very competitive, with players that rapidly adapted their strategy to the market needs, developing infrastructure for new products, CNG – compressed natural gas. In 2014, CNG consumption reached its highest level amounting to 350ml m3 (which represents apt. 350k m3 of gasoline), resulting in decreased RON92 consumption. Accurate pricing policy and some marketing activities on RON 95 moved RON 92 clients on RON 95, thus diminishing the negative impact of increased CNG consumption.

Operating a network of 68 stations, RPG managed to increase the retail sales by 16% vs. 2013, while the wholesale channel increased the volumes compared to 2013 by 56%.
These results were based on the quality of the fuels and services introduced by Rompetrol Georgia on the local market starting 2013, Efix S, a Euro 5 premium fuel and the Fill & Go billing module, an innovative solution on the local market.
Apart from these new products and services, the company started at the end of 2013 to implement the new concept of the distribution station, developed by Rompetrol for its entire network.

7 new stations with the new Rompetrol logo were added to the network at the end of 2013 and the beginning of 2014.
Wholesales increased in 2014, due to commercial agreements with other local distributors. Also, consolidated government tenders won by Rompetrol Georgia contributed to the company sales.
During 2014, RPG import share has increased from 19% to 23% based on the increased sales of the company and also on the wholesale activity.
RPG achieved an EBITDA of USD 12.7 mil, due to increased sales quantity and operational savings.
In 2014 Rompetrol Georgia renewed certificates for the following standards: ISO 9001, ISO 14401 and OHSAS 18001.

**PLANS FOR 2015**

■ Increase/improve control mechanisms throughout the network;
■ Increase retail sales share in total sales, via further network development;
■ Fulfilling obligations and requirements for consolidated tender for supplying Georgian Government with fuel in 2015;
■ Renewal of firefighting system in Tbilisi warehouse.

The good net result of Rompetrol Georgia during 2014 of USD 6.7 million was reached through consistent commercial and OPEX control actions.
Compared to year 2013 annual total sales volumes have increased by 48 K tons.
Contribution was higher by USD 2.9 million due to the increase of the sales quantity corroborated with OPEX savings.

# Dyneff France and Spain

### 1. MAJOR PERFORMANCE AND ACCOMPLISHMENTS IN 2015

For the main products addressed by Dyneff France, below are the figures of total consumption in France

- 43.3MT of Diesel (39MT Diesel/4.3MT Non road diesel), + 0.8% compared to previous year results
- 7.2MT of Gasoline, +1.2% compared to previous year results
- 6.7MT of Heating Oil, +3.5% compared to previous year results

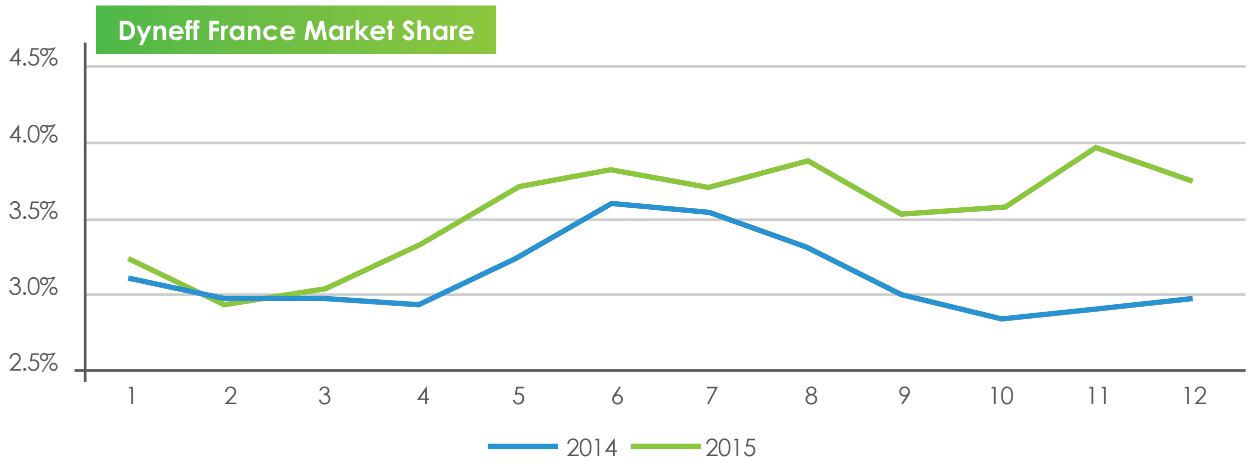
*source: http://cpdp.org/*

In 2015, the French market, one of the largest fuel consumer markets in Europe, which amounts to 75MT, increased by 1.7% compared to 2014, despite the refinery shutdown trend in Europe. One of the main factors affecting the increase in consumption was the attractive selling price, due to the significant drop in oil prices. As an example, diesel price decreased by 24%, gasoline by 8-9% and heating oil by 18% in average in one year. Another factor is the increase of vehicles by 6.8%, while diesel cars registered a decrease by 4.3%. Global sales of highway stations increased by 3.1% vs 2014, 5% for gasoline and 2.9% for diesel.

- Global Dyneff France sales were 1,881 kt. Overall volumes increased in 2015 vs 2014, despite strong price competition and a difficult market situation throughout the year determined by the sharp fall in oil prices.

**Dyneff France sales by product type in 2015:**

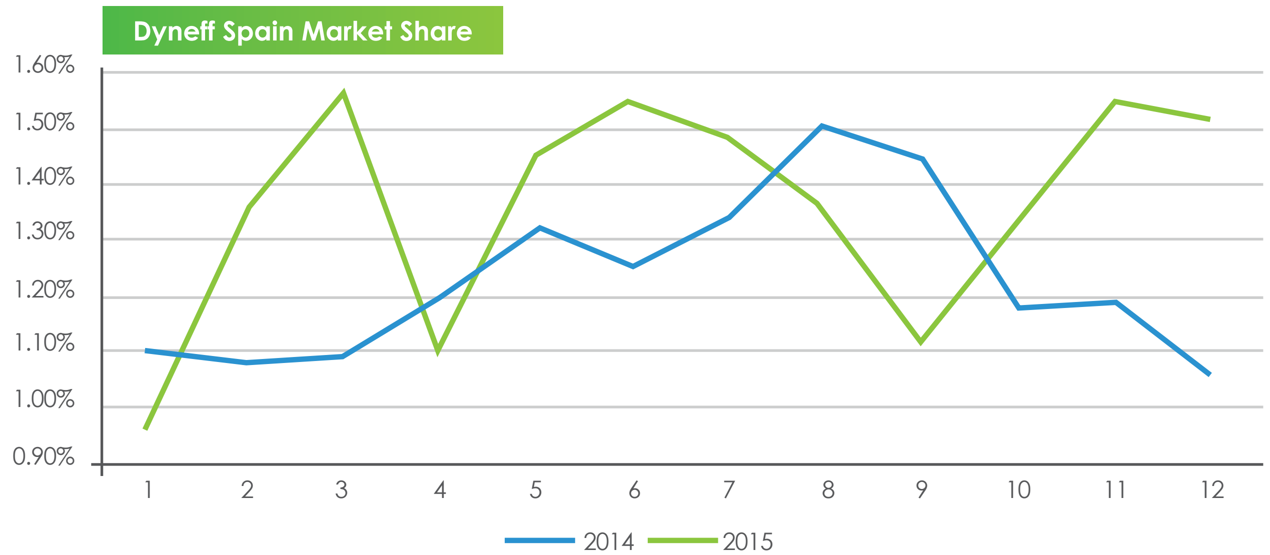
- Diesel - 1,550 kt (+19% vs 2014), increase in volumes mainly explained by new contract on Trading Channel;
- Gasoline - 146 kt (-5.3% vs 2014), due to traditional filling station network decrease and market impact;
- Heating Oil - 183 kt (-1.3% vs 2014), due to abnormal weather conditions in winter time, corroborated with decrease in prices and heavy mass media coverage.




Global petroleum product consumption in the Spanish Market increased by 2.5%, 55.2MT vs 53.8MT in 2014, showing signs of recovery.

- 27.8MT of Diesel, + 5.6% compared to previous year results
- 4.6MT of Gasoline, +0.7% compared to previous year results
- 1.99MT of Heating Oil, -0.8% compared to previous year results

source: http://www.cores.es




Global Dyneff Spain sales in 2015 were 442 ktons (+14% vs 2014) due to client portfolio restructuring and the contract the company had with its main trading customer.

# 05 INDUSTRIAL SERVICES AND UPSTREAM

# Rominserv Kazakhstan


The company KMG –Engineering was created in order to support the activity of the KMG International Group on the territory of the Republic of Kazakhstan. The company provides rebranding in the end of 2015.

Firstly, the name proposed corresponds to the chosen strategy of Partnership's development in full as an engineering and construction company which provides oil refinery with technical services, will enhance responsibility and motivation of its employees as it will bind them to treat a brand reputation of KazMunaiGas with due care.

Secondly, considering a popularity of KazMunaiGas National Company within Kazakhstan, an identifying the Partnership with this company will provide an additional advantage when working with oil refineries which shares are owned by KazMunaiGas in part or in whole.

Thirdly, considering an extension of activity towards rendering of services and manufacturing of materials for market entities other than oil refineries, the Partnership's new name will improve its recognition and become substantial support when participating in tenders and negotiating with potential contractors. A license for building and construction works of the first category of responsibility is expected to be obtained in two years and this will also significantly increase a scope of building activities.

Since the beginning of its activity up to 2013 the company has 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 the vacuum block of the Crude Desalter Unit (CDU) at Atyrau Refinery as well as of the Delayed Coker Unit. The First Start-up Package. Reconstruction of the unit in order to increase its capacity up to 1 million tons.

After completion (August, 2015) of participation in modernization works on Pavlodar refinery the Partnership has started the new direction on practice of company. From July, 2015 Company successfully has began the works as Outsourcing of Technical Maintenance on Atyrau refinery.

Currently Company maintains the following equipment of Atyrau Oil Refinery Plant:

- Heat exchanging equipment;
- Tanks and vessels;
- Cooling equipment;

Pumping equipment, heaters, filters, exhaust heat boilers and reactors;

- Pipelines;
- Other equipment.

The company expands the service area and service type of works: conclusion of new contractor's agreement with General Contractors "Sinopec" and other small volume, also additional works as construction of pipelines, installation of steel structures, manufacturing and assembling of supports and hangers for pipelines and ect.

Thereby, company targeted to be as the largest enterprise for maintenance of Kazakhstan oil refineries.

## 2015 FINANCIAL PERFORMANCE

In 2015 the company's revenues have significantly decreased in comparison with 2014 from 5 797 360 USD down to 3 152 517 USD. EBITDA was (-2.15 mln) that is explained by the fact that the company has terminated the contract for Modernization of POCR project, but the same way Company has started new project for Outsourcing of Atyrau refinery. The main reasons, which affected for declining of finance indicators – is significant weakening of national currency.

## 2016 OBJECTIVES

In 2016 KazMunayGas-Engineering LLP (KMGE) is planning to continue its activity within the framework of the process of rendering services for technical maintenance of Atyrau Refinery as a part of Oil Refineries Business Process Reengineering Program for 2014-2017.
As for an Atyrau refinery within this Program KMGE is planning to conclude two more additional contracts during spring-summer 2016. One of them is for rendering services for the technical maintenance and audit of supporting equipment of Preliminary Oil Treatment Sector at Atyrau Refinery. Another contract is for the technical maintenance and running repair work of the key and supporting heat-power equipment, metal structures of the Heating Electric Station at Atyrau Refinery.
As for Pavlodar Oil Chemistry Refinery KMGE is planning to take a part as outsourcing in the project of rendering services for the technical maintenance of the Repair, Construction and Assembly Department beginning from May-June 2016.

# Rominserv Valves IAIFO

Rominserv Valves Iaifo is one of the biggest producer of producer of cast iron and steel valves and safety valve spring in Romania. Part of The KMG Group, the company is exporting annualy around 40% of production to Germany (85%), Italy, France, Austria and Bulgaria.

Rominserv Valves Iaifo has continued in 2015 to contribute to The KMG Group's strategic goal, by participating to 2015 Turnaround of Petromidia refinery, by supplying cast steel industrial valves and also by providing repair services for valves and safety valves. Rominserv Valves Iaifo continues to be an important partner in Romania for all major oil and gas industry companies.

The company products are destined to

- The oil&gas industry, transportation and storage
- Refinery and petrochemicals
- Energy industry
- Wather, steam and heat industries.

Also, Rominserv Valves has been chosen by some reputable European companies as a supplier for complex cast parts, which will end up as major components of their equipment and machining tools

During 2015 RIS Valves Iaifo homologated a series of new products, such as:

**1)** Rising stem gate valves PN 25 and PN 64, DN 15; 20; 25; 40, forged body, constructive version with welded flanges - in 4 variants of material depending on the working temperature and the working fluid.
**2)** Cast steel swing check valve DN200 PN16, with inner counterweight, welding ends, equipped with dampers
**3)** Cast nodular iron swing check valve PN16 AWWA DN 80-300

Start of collaboration for castings (bodies, bonnets, and dosing valves) of gray cast iron, with the companies EXPOW France and Electroprecizia Romania.

Rominserv Valves Iaifo achieved in 2015 a turnover of 5,8 mil USD, being one of the biggest producers in the area, with a total contribution to state budget of over 1,58 milion USD.

**MAIN OBJECTIVES FOR 2016**

The turnover of Rominserv Valves Iaifo is targeted to increase with 40% in 2016, achieving million 8,2 USD, compared to the actual turnover from 2015, with the support of sales on cast parts, and also increasing number of partners on external market, supply of valves in areas less affected by the decline of the oil prices.

The main objectives of Valves Iaifo in 2016 is to participate to the projects of Rominserv in Kazakhstan, for modernization of refineries.

One of the objectives of Rominserv Valves Iaifo is to establish long partnerships with renowned companies in the field and co-participation in projects, both domestically and on the external market, to support increasing the volume of products supplied to customers outside the Group.

- Dyneff Spain sales by product type in 2015:
- Diesel - 352.8 kt (+21% vs 2014), or 1.6% from the Spanish market
- Gasoline - 29.8 kt (- 12% vs 2014), or 0.6 from the Spanish market
- Heating oil - 59.2 kt (-2% vs 2014), or 1% from the Spanish market

**MAIN DEVELOPMENT PROJECTS IN 2015:**

- Rehabilitation and dismantling works on DPPLN terminal, with the objective to restart operations in 2016;
- Overall Development, Compliance projects and Maintenance (Depots & Gas stations): $0.87MM – Dyneff invests continuously in maintaining and improving technical standards;
- Launch of natural gas commercialization project.

**2. DEVELOPMENT OF OPERATIONS AND PERFORMANCES IN LINE WITH THE COMPANY BUSINESS PROFILE**

- Modernization works in the retail network to address customer needs and buying patterns.

**3. 2016 TRENDS, STRATEGY FOR THE UPCOMING YEARS**

**3.1 Market trends**

- Decrease in product quotations may stimulate consumption, however, in the context of rising environmental concerns;
- In 2016, New obligation in non-fuel road diesel with an increase of biofuels blending requirements from 0% to 3.85%

**3.2 Strategic directions**

- Continue organic growth in order to achieve national coverage in wholesale;
- Reinforce detail presence within existing geographical coverage;
- Extend detail and retail portfolio of services ;
- Develop e-commerce platform;
- Develop promising JV project in the biofuel market segment;
- Expand market presence on new established business - natural gas

**4.SALES VOLUMES BY CHANNEL**

**Dyneff France (kt)**

| | 2015 | 2014 | Actual 2014 vs 2013 | % |
|---|---|---|---|---|
| Volumes of which | 1881 | 1640 | 241 | 15% |
| Wholesale | 809 | 923 | -114 | -12% |
| Detail | 269 | 395 | -126 | -32% |
| Trading | 753 | 274 | 479 | 175% |
| Retail | 52 | 48 | 4 | 8% |

**Sales by product type Dyneff France (kt)**

| | 2015 | 2014 | Actual 2014 vs 2013 | % |
|---|---|---|---|---|
| Volumes of which | 1881 | 1640 | 241 | 14.7% |
| Gasoline | 146 | 155 | -8 | -5.3% |
| Diesel | 1551 | 1299 | 252 | 19.4% |
| Heating Oil | 183 | 186 | -2 | -1.3% |
| LPG | 0.69 | 0.72 | -0.03 | -4.2% |

**Dyneff Spain (kt)**

| | 2015 | 2014 | Actual 2015 vs 2014 | % |
|---|---|---|---|---|
| Volumes of which | 442 | 386 | 56 | 15% |
| Wholesale | 348 | 294 | 54 | -12% |
| Detail | 84 | 81 | 3 | -32% |
| Retail | 10 | 10 | 0 | 8% |

**Sales by product type Dyneff Spain (kt)**

| | 2015 | 2014 | Actual 2014 vs 2013 | % |
|---|---|---|---|---|
| Volumes of which | 442 | 386 | 56 | 14% |
| Gasoline | 30 | 34 | -4 | -12% |
| Diesel | 353 | 291 | 62 | 21% |
| Heating Oil | 59 | 61 | -1 | -2% |


**5. MARKETING CAMPAIGNS**

Throughout 2015, Dyneff carried out several direct marketing campaigns within its DETAIL, RETAIL and WHOLESALE networks which mainly included mailing campaigns and « welcoming » offers during the cold season (targeting individual customers) and promotion of Dyneff niche products through its network of filling stations. Since October, Dyneff also started providing Gaz Naturel to individual and professional clients. This new activity generated the creation of numerous direct marketing actions and concentrated 100% of the telemarketing campaigns since the launch.

More than 30 Web marketing campaigns and 70 telemarketing campaigns were carried out throughout the year. Trade marketing campaigns on gas station network included 4 Hei bimonthly campaigns for the motorway gas station network and 4 Dyneff bimonthly campaigns for the road gas station network.

**No. of operational stations Dyneff France**

| | 2015 | 2014 | Actual 2014 vs 2013 |
|---|---|---|---|
| Operational No. Sites (end of period) | 91 | 100 | -9 |
| COCO | 19 | 18 | 1 |
| CODO | 1 | 1 | 0 |
| DOCO | 9 | 9 | 0 |
| DODO | 61 | 71 | -10 |
| Express | 1 | 1 | 0 |

Dyneff Spain operates 2 COCO stations: La Jonquera and Arasur.

**6. KEY EVENTS**

- Sale of 51% shares in Rompetrol France group of companies to CEFC China Energy Company Limited;
- Agreement signed with Raisinor company to create JV's, to build Ethanol plant and further commercialize products made from waste/residues;
- Implementation of a new reporting tool, switch from Oracle to Anael;
- Natural gas commercialization project launch.

# Palplast Sibiu

Palplast S.A. is a Romanian company, established in 1994, located in Sibiu. The Company mainly produces and sells HDPE pipes, at the highest standards of quality, having a strong relationship with its main HDPE raw materials suppliers.

With 20 years of experience in this field and in spite of a growing completion, Palplast became the company with the highest economic growth among the producers of HDPE pipes and fittings for water networks, natural gas, irrigation and sewerage in Romania.

Previous year's evolution shows a strong record, despite a very challenging HDPE pipes and fittings market in Romania.

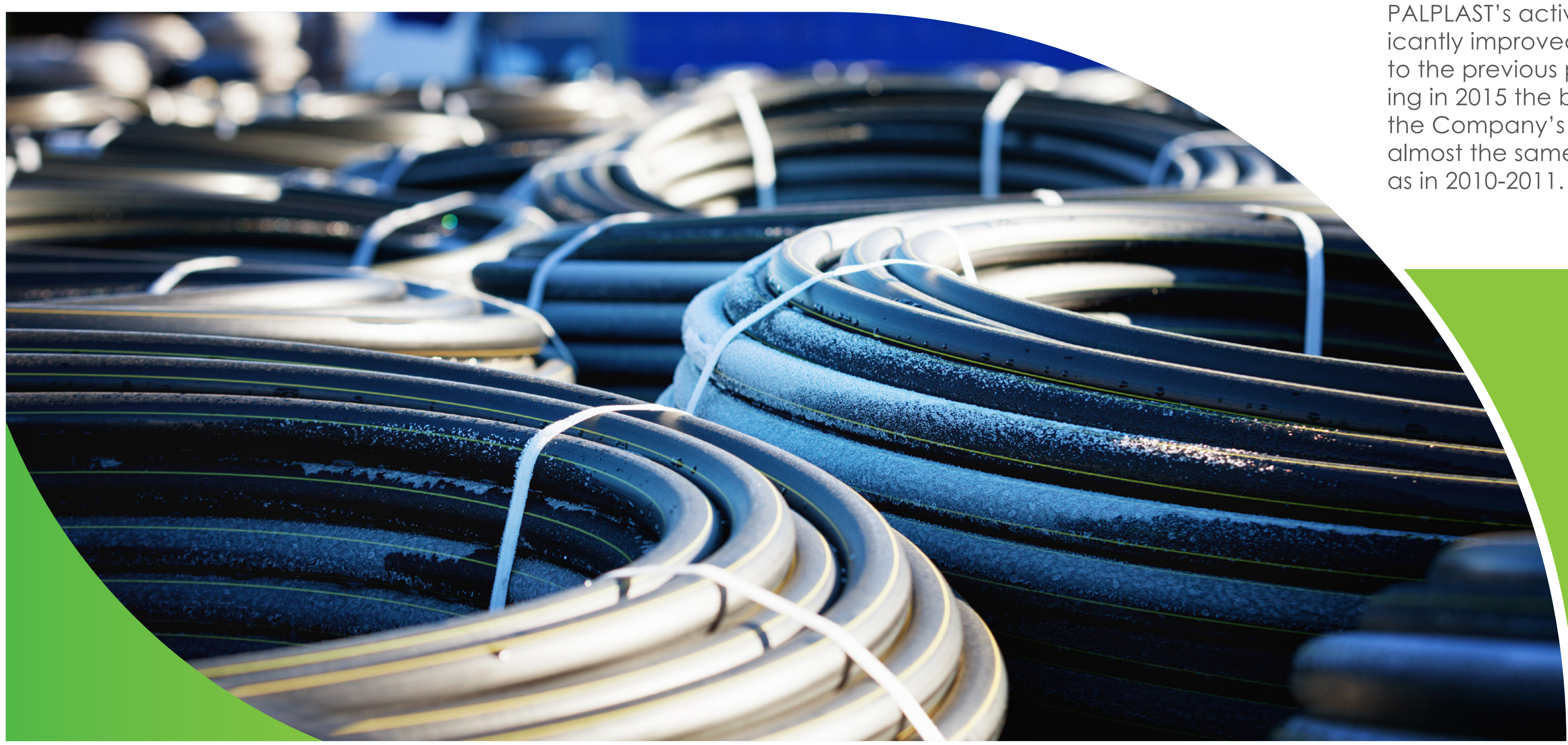
## 2015 MAJOR ACHIEVEMENTS

Continuing the ascending trend started in 2012, Palplast recorded the highest pipe production in the Company's history, which was demonstrated in all profitability indicators of the Company.

## 2016 MAIN OBJECTIVES

Considering the market potential and the strengths of the Company, the main realistic objectives for 2016 are:

- Maintaining production and sales, secure margins and consolidate the profitability figures
- Contractual arrangements and long-term contracts with major clients;
- Developing the Client Portfolio;
- Start a modernization process of production equipment.



**Dyneff Spain (kt)**

| k USD | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Net revenues** | **3,428** | **5,182** | **5,929** | **7,865** | **8,546** |
| growth | n.a. | 51% | 14% | 33% | 9% |
| **Gross profit** | **312** | **525** | **678** | **1,050** | **1,332** |
| growth | n.a. | 68% | 29% | 55% | 27% |
| **EBITDA** | **-211** | **236** | **371** | **623** | **884** |
| growth | n.a. | 212% | 57% | 68% | 42% |
| **EBIT** | **-116** | **165** | **182** | **533** | **847** |
| growth | n.a. | 242% | 10% | 193% | 59% |

After several years of financial losses, due to an intensive restructuring process of 2011, PALPLAST's activity was significantly improved, compared to the previous period, obtaining in 2015 the best results in the Company's history, with almost the same headcount as in 2010-2011.

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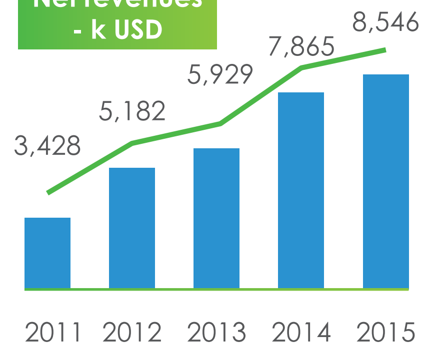
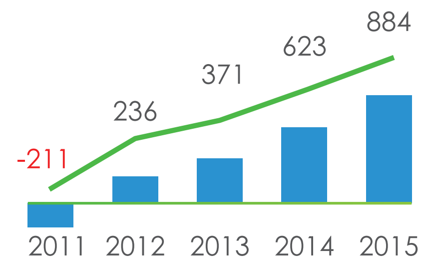
**Net revenues - k USD**




**EBITDA - k USD**




# 06 CORPORATE GOVERNANCE

# Corporate Governance

**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. KMG International N.V. and its subsidiaries, altogether referred to as the **KMG International Group**, represent a major worldwide player in the oil field carrying out operations in countries throughout Europe, Central Asia and North Africa. The Group's activities are primarily concentrated in the refining, retail, marketing and trading areas, with 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.

## OPERATIONAL PROFILE

KMG International N.V. was incorporated in November 1999, its entire issued capital being 100% held by Coöperatieve KazMunaiGaz U.A. since end of 2015.

As of December 2015, KMG International Group comprised 55 entities (sub-divided into 45 legal entities – joint stock or limited liability companies/ partnerships and 10 branches, representative offices and joint ventures), headquartered in 16 countries (i.e. Romania, The Netherlands, Kazakhstan, Switzerland, Bulgaria, Republic of Moldova, Georgia, Turkey, Ukraine, France, Spain, Singapore, Libya, Iraq, Oman, Gibraltar). Of these, the Albanian companies (four) owned by KMG International N.V. are currently undergoing liquidation process. *

For comparison purposes, at the end of 2014, KMG International Group comprised 52 entities (44 legal entities - joint stock or limited liability companies and 8 branches and joint-ventures).

**Detailed information about all KMG International Group entities can be found in Annex 1 – KMG International Group entities of this Report.*

The Articles of Association and the regulations applicable to each entity comply with local legislation and provide the rules underlying the conduct of business, as well as the proper administration and management of each entity. In Romania, the main applicable corporate regulations are Law no. 31/1990 on companies, as further amended and supplemented and Law no. 297/2004 on the capital market (the latter being applicable to stock-exchange listed companies such as Rompetrol Rafinare SA and Rompetrol Well Services SA).

## MAJOR CORPORATE CHANGES THROUGHOUT 2015

In 2015, major changes that had a significant impact on the corporate structure included:

- **Merger between KMG International N.V. and KMG Investments B.V.** – completed in December, 2015
KMG Investments B.V., the sole shareholder at that time of KMG International N.V., was entirely absorbed by KMG International N.V. Subsequently, the new sole shareholder of KMG International N.V. later became Coöperatieve KazMunaiGaz U.A.

- **Divestment of 51% share in Rompetrol France S.A.S. and its subsidiaries to CEFC China** – completed in December, 2015. KMG International N.V. continues to hold a 49% participation share. The mutual objective of shareholders is for Dyneff SAS to become a development platform in Western Europe, benefiting from extended access towards supply sources and strategic support from the shareholders to continue expanding its operations in the energy sector.

- **Incorporation of KMG Rompetrol Development S.R.L.** – completed in March, 2015. The entity's main object of activity is represented by the sale of automotive fuels in specialized stores.

# Corporate Governance

■ **Rompetrol S.A. name change** - to Oilfield Exploration Business Solutions S.A., in June, 2015.

■ **'Modernization of Pavlodar Petrochemical Plant' Project Management Contract** – signed in May, 2015 between KazMunayGas Engineering B.V., Rompetrol Financial Group S.R.L., Rominserv S.R.L., KazMunayGas-Engineering LLP (former Rominserv Kazakhstan LLP) and JSC "KazMunaiGaz-RM" establishing the takeover by JSC "KazMunaiGaz-RM" of the management of the Pavlodar Refinery Modernization Project, namely management, control and monitoring of the said project. Subsequently, a new structure of directors was implemented at the level of Rominserv S.R.L., entailing an innovative management configuration, in line with the aforementioned Management Contract.

■ **Incorporation of 2 new branches of KazMunayGas-Engineering LLP in Kazakhstan,** one in Pavlodar (in March, 2015) and one in Atyrau (in April, 2015).

■ **Name change of Rominserv Kazakhstan LLP** into KazMunayGas-Engineering LLP in December, 2015 and, consequently, of its Kazakhstan branches in Pavlodar and Atyrau.

The management system of KMG International N.V. includes three levels of approval, in accordance with its statutory documents and applicable Dutch law:

■ Sole Shareholder;
■ Board of Managing Directors;
■ Chief Executive Officer ('CEO').

The Sole Shareholder of KMG International N.V. as of 31st of December 2015 is Coöperatieve KazMunaiGaz U.A.
The Board of Managing Directors is composed of a number of 6 (six) managing directors, of which 1 (one) executive managing director (CEO) and 5 (five) non-executive managing directors, as follows (as of December, 2015):

■ Mr. Daniyar Berlibayev – Chairman, non-executive managing director
■ Mr. Zhanat Tussupbekov – CEO
■ 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

The non-executive managing directors include three independent directors. 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 granting increased protection of shareholder and stakeholder interests and additional guarantees 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 charge of reviewing, defining and submitting strategic options that may contribute to the development of the company and its subsidiaries. The CEO is authorized to independently represent KMG International N.V., having the option to delegate his managing function for certain operations/categories of operations to certain third parties.

The non-executive members of KMG International N.V. Board mainly have the following duties: (1) to participate in determining the strategy and general policies of the company; (ii) to supervise the management position and the general affairs of the company and its subsidiaries.

In support of its activity, the Board of Managing Directors may establish specialized committees, such as the Audit Committee and the Remuneration Committee.

Audit Committee's composition as of December, 2015:
■ Mr. Ramon Diego Mendes de

# Corporate Governance

Leon (Chairman)
- Mr. Johan Frederik Lodewijk Frowein
- Mrs. Anargul Kairulla

Remuneration Committee's composition as of December, 2015:
- Mr. Johan Frederik Lodewijk Frowein (Chairman)
- Mr. Ramon Diego Mendes de Leon
- Mrs. Mihaela Ungar

The unified management system at the level of KMG International N.V. is also mirrored within the Group's subsidiaries. As a result, the subsidiaries' decision-making process undergoes three layers of approval:
- General Meeting of Shareholders/Sole Shareholder;
- Board of Directors/Sole Director;
- General Manager and Finance Manager.

At the level of KMG International N.V., there is a well-designed organizational chart incorporating key positions and the specific competencies in each business unit. Occupants of said positions, namely top management representatives, are responsible for coordinating the activities and processes of the Group at executive level. They also ensure the streamlined communication between KMG International Group and its highest governance body. In accordance with KMG International N.V. Board Regulations, the company's Board approves the appointment of general managers (CEO) of KMG International N.V.'s affiliates, as well as the organizational structure of KMG International and the appointment of Chief Officers by business units. Therefore, the nomination process of key people within the Group is approached, discussed and approved by the highest governance body, based on criteria such as expertise, knowledge, skills, all in line with the Group's business needs, national and international legal framework and internal policies and procedures.

As per the above-mentioned Board Regulations, all transactions in which there is a conflict of interest between KMG International N.V. and a Board Member, this will be resolved in accordance with the terms that are customary to arm's-length transactions in the branch of business in which the company and its subsidiaries are active. Such Regulations also lay down rules and requirements concerning a conflict of interest.

At the level of KMG International N.V. Group there is a set of tools designated to be utilized the process of identifying and coping with business concerns at local and centralized levels, on the one hand, as well as with employee concerns, on the other hand.

In terms of business concerns, there are highly specialized committees established at management level (e.g. Management Committee, Ethics and Disciplinary Committee etc.) within which a wide range of concerns may be raised and discussed. Moreover, aside from the general conclusions reached in such committees, major issues are constantly brought to the knowledge of KMG International N.V. (i.e. to its corporate bodies), as parent company of the Group's subsidiaries.

In terms of employee internal concerns, there are policies, internal communication instruments specially designed for the purpose of an enhanced communication in the employee-management relationship. These mechanisms will be detailed in the Our People chapter.

As of December 2015, the Remuneration Committee established by the Board of Managing Directors at the level of KMG International N.V. is responsible for advising the Board and the General Meeting (i.e. Sole Shareholder) in matters related to remuneration policy, terms of employment and total compensation, as well as performance criteria, mainly for Top Management, creation and implementation of any compensation plans, monitoring and assistance in implementation of remuneration policies and plans at Group level. The decision-making process with regard to any remuneration policy and plan applicable at Group level also rests upon the KMG International N.V. Board of Managing Directors.

Further details will be provided in the Our People chapter.

# 07 SUSTAINABILITY

# Community

## Our approach to community engagement

As part of our strategy, KMG International supports a wide range of projects that focus on community development, by further diversifying the groups that we address to maximize the positive and constructive impact we have on society.
Our progress over the past few years stands witness to our efforts to become a sustainable oil and gas player in the national and regional market. Not only did we manage to increase the efficiency of our operations, reduce our emissions and waste, but we also became the first local fuel producer to align to the Euro5 fuel emissions standard. Therefore, we have not only invested in the technical aspects of our business, but also in our people and the community we operate in. Our internships and career development programs, as well as our partnerships with NGOs, have grown constantly, providing better opportunities for numerous people.
At Group level, there are plans and budget allocations for community projects, aimed at supporting the harmonious development of the communities we operate in. As such, our environmental projects focus not only on waste management, biodiversity preservation and pollution prevention activities, but also on raising awareness on environmental issues through dedicated actions with the participation of our employees, such as Rompetrol Run and Care fundraising races, tree planting campaigns, specific environmental cleanup actions and voluntary blood donations.

## Among the projects implemented in 2015:

### CIVIL SOCIETY GALA

KMG International supported the 13th edition of the Civil Society Gala, the most important project dedicated to the activity of the associative sector in Romania.

As of 2003, Rompetrol is partner and main sponsor of the Civil Society Gala – the annual competition that awards the best projects of the year, initiated by NGOs, unions, individuals etc.

Therefore, we can say that our responsibility is not only to the almost 7,000 employees and 3,500 business partners to whom we provided additional safety in the context of difficult market conditions. We have constantly extended our commitment and involvement to areas in great need - education, healthcare, environmental protection, culture, generating a direct positive impact on more than 300,000 people nationwide in the past 9 years.


### SMURD PARTNERSHIP FOR LIFE

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.

In the last 6 years of solid and fruitful partnership, we provided the emergency rescue service with 809 tons of jet fuel (151 tons in 2015 alone), which provided 10,347 hours of flight and 5,808 lives saved - a precious project, that we are proud to continue and develop.

To put these figures in perspective, the amount of jet fuel offered by Rompetrol in the 2010-2015 period would have been enough for a helicopter to circle the Earth 20 times.


### GEORGE ENESCU INTERNATIONAL FESTIVAL

Under the Rompetrol brand, KMG International continued to be main partner of the George Enescu International Festival, the year's defining event for classical music lovers and promoter of Romania's cultural identity, gathering thousands of loyal spectators.

During the 2015 edition, the Group also supported the presence of a young violinist from Kazakhstan, Zhibek Mussurgaliyeva, who performed on September 12 on the public stage in George Enescu Square.

The Festival, at its 22nd edition in 2015, unfolded between August 30 and September 20 and included a wide variety of performances in concert halls in Bucharest and other Romanian cities. Among cultural activities linked to the contribution of KMG International, we can enumerate the two concerts performed by the London Symphony Orchestra in Bucharest.

## CONCERT OF KAZAKH VIOLINIST ARMAN MOURZAGALIYEV AND ORCHESTRA OF PRINCESS MARGARETA OF ROMANIA FOUNDATION

Our contribution to the cultural life of Romania is part of our vision to build bridges between Romania and Kazakhstan. In 2015, we continued our long-standing sponsorship of the Princess Margareta of Romania Foundation and its youth orchestra by featuring them in an extraordinary concert offered by Kazakh violinist Arman Mourzagaliyev on December 5, at the Romanian Athenaeum.

The concert was part of the company's initiative to support young talents on the Romanian cultural scene and promote a cultural exchange between Romania and Kazakhstan.

In 2015, the Princess Margareta of Romania Foundation celebrated 25 years of activity, during which it developed and supported programs that improved the living standards of children, youth, families and seniors in need, fostered creativity and local talent, helping to increase the quality of people's lives and communities.

The Foundation emphasizes the intergenerational model by stimulating solidarity and creating a bridge between children, youth and elders, through ongoing projects like "The Generations Community Center", "The Special Fund for Children", The Hercules Community Center" and programs whose names speak for themselves: "Never Alone – Volunteers Close to the Elderly"; "Young Talents", which supports and promotes talented young artists coming from families with low incomes; or "A Trade to Trust Your Future" program, which supports youth coming from foster care and disadvantaged environments who seek employment.

## CELEBRATING THE 10TH ANNIVERSARY OF THE ROMANIAN CULTURAL SOCIETY "DACIA" IN KARAGANDA

The Romanian community in Kazakhstan continuously benefits from KMG International's support, through the Dacia Romanian Cultural Association, in an effort to preserve and develop their identity in Kazakhstan through annual dedicated actions and events.

An artistic event was organized by the ethnic-folk groups "Dorule" and "Romania" in October to celebrate 10 years of activity of the association.






## KAZAKH FILM FESTIVAL

KMG International is actively involved in cultural programs and projects designed to promote the social and cultural values of Romania, both nationally and internationally. In this respect, bringing to Romania the Kazakh Film Festival was a very inspired idea, much 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, held the Kazakh Film Festival in Bucharest at the end of November, an event that greatly contributed to the cultural exchange between the two countries.

## DONATION TO HELP THE VICTIMS OF CLUB COLECTIV

KMG Rompetrol joined the national effort to help the victims of the tragic event that took place at Club Colectiv, on October 30, contributing to the donations raised by "Mereu Aproape" Foundation.

With a long track of healthcare projects, it was only natural for us to want to contribute. Thus, we purchased and donated to the National Blood Transfusion Institute two plasma coolers, as well as technical and medical furniture for its laboratories.

## PARTNERSHIPS WITH ACADEMIA 2015 EDITION OF THE INTERNSHIP PROGRAM

KMG International, through its member companies, run another edition of its annual Internship program, addressed to those approximately 129 persons selected to develop their professional skills and technical competences for a successful career in the oil and gas industry. The program rolled out on July 27 and lasted until September 11, at Petromidia Navodari and Vega Ploiesti refineries, owned by KMG International.

During the program, participants were trained by professionals from Rompetrol Rafinare, Rominserv, Rompetrol Quality Control and Midia Marine Terminal, in such diverse business area as production, laboratory analysis, maintenance, sales and marketing, planning, risk management, QHSE.

The participants come from specialized universities – Ovidius University in Constanta, Oil and Gas Faculty in Ploiesti – which attract students from all around the country. The Group has developed with these universities partnerships offering internship programs to students, graduates and post-graduates.

The students, who participated in the 2015 Internship were selected from among 150 candidates as a result of a well-designed recruitment campaign.

During the selection process, their technical and behavior competences were evaluated, as well as the team work abilities, their initiative and proactive attitude and also their orientation towards results and clients. By the end of the program, KMG International specialists assessed the employability score of the students who participated in the program.

# Employee engagement projects

### ROMPETROL RUN AND CARE – A CHARITY RUNNING EVENT

KMG International organized in 2015 the second edition of Rompetrol Run and Care, a charity race in Herastrau park that involved our employees, their families and our business partners in supporting social causes.

Over 300 employees from various companies within the Group ran for distances of 5, 10 and 15 km, each kilometer being rewarded by the company and the amount raised was directed to support the activities of Princess Margareta of Romania and MagiCamp Foundations.

Following Rompetrol Run and Care charity event, the funds raised for MagiCamp helped with the organization of summer camps for the benefit of children and adolescents in Romania suffering from oncological diseases, while the sums allocated to Princess Margareta Foundation supported the Young Talents program and orchestra concerts.

### OTHER INTERNAL PROJECTS:

Cleaning the beach close to Navodari camp and Petromidia platform, on the occasion of the World Environment Day – where ~100 employees from the industrial Petromidia platform collected waste plastics, glass, metal, on a beach area of about 2 kilometers. With the support of local authorities, the waste was subject to selection and recycling;

Donations of toys, food and clothes for Children's Day (June the 1st) and Christmas, for children coming from low-income families;

Directing the 2% income tax – 280 persons sent their 2% annual contributions, to be further directed to partner NGOs with which we collaborate: SMURD, Hospice Casa Sperantei, Magicamp Foundation, Orchestra of Princess Margareta of Romania Foundation, and the Humanitarian Association MAME;

- Blood donation - 55 employees at our Bucharest headquarters donated blood to be used in hospitals across the country to save patients undergoing surgery, oncological treatment or who require blood products;

- Organizing the workshop "Principles for healthy living and exercise";
- Celebration of Earth Hour and international days currently observed by the United Nations.

### AWARDS

**Green Frog Award – by Deloitte**

KMG International was awarded for having the best sustainability report in the local competition Green Frog Award 2015, run by Deloitte.

The Green Frog Award was at its first edition in Romania in 2015, with the previous 13 consecutive editions of the competition (Deloitte Central European Sustainability Report) rewarding excellence in reporting non-financial corporate information in Central Europe. The prize focuses on content, structure and creativity in communication and performance in the field of sustainability and strategic commitments undertaken in reports.

# 08 FINANCE

# Directors' Report

## Analysis of the financial results


### 1. INTRODUCTION

In 2015 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, around the Black Sea and in South of France. 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. KMG International is a strategic asset for KMG, ensuring the stability of the economic flows from crude oil exports.

### 2. STRATEGY

To assure competitiveness of the Kazakh crude based products in the Black Sea market, an ambitious upgrade program has been executed to bring the Petromidia refinery in Romania to world-class standards, by increasing the capacity from 3.8 million tons per year to 5 million tons per year. Following the upgrade, the refinery reached the 5 million tons total feedstock processed in 2014. During 2015, the 5 years general overhaul of Rompetrol Rafinare was successfully completed by Rominserv, during a period of 40 days. Therefore leading the total feedstock processed by Petromidia at 4.95 million tone, reaching to 15.2kt/day total feedstock processed per day, above historical figures reached in 2014 of 13.8kt/day. The overall processed feedstock was higher than 2015 estimated budget, especially due to certain innovative technological solutions implemented in 2015. The refinery is currently the biggest and the most modern refinery within Romania, accounting for more than 40% of the actual refining capacity of Romania. Moreover, the upgrade allowed the refinery to benefit from all advantages of processing high-sulphur crude of Kazakhstani grade and to produced 100% compliant EURO 5 fuels, to increase the Nelson index (a frame of reference used to assign values to oil refineries on the basis of their complexity) from 8.3 to 10.3 in 2015 (similar with 2014). Another very important indicator which incurred an important improvement after the upgrade was the Energy Intensity Index (EII) with a value of 98.6 as of 2015 (99.85 as of 2014) compared with 120 before the upgrade.

The 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 or room for additional market share growth.

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 strategy is aligned with KMG European strategy, which 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

KMG International invested heavily to improve results:

- Petromidia's results significantly improved due to investments of more than $1 billion since its acquisition by KMG
- Retail modernization program is bringing positive image and improved operational performance
- Optimization programs improved operational performance and reduced operating costs

The confirmation of the sound strategy came during 2012 – 2015, through the followings:

- Petromidia achieved higher production volumes and improved technical performance
- Sales volumes in retail increased
- Consolidated financial results reached normalized breakeven level in 2015

**The KMG International's long-term strategy will enhance its position as a major player around the Black Sea:**

**1)** The Petromidia upgrade provides the basis for the next phase of KMG's European strategy. The following key directions for development are envisaged through KMG International's long- term strategy:
**a.** Significant technological improvements are the basis for increased refinery economics
**b.** Petromidia will continue focus on cost competitiveness and energy efficiency for optimum refinery performance

**2)** Markets around the Black Sea provide growth opportunities
**a.** Expected increase in oil demand through to 2025, in line with economic growth prospects
**b.** Increased demand and growing economies are expected to sustain attractive margins

**3)** KMG has a unique opportunity to expand in the Black Sea markets, for:
**a.** Strategic positioning close to consumers in the refinery's natural markets

**b.** Synergic effects on increased vertical integration for improved financial performance

**4)** KMG expansion strategy is capitalizing on:
**a.** KMG blended experience in both developed (France) and growing (Romania) markets
**b.** Multi-layer approach, structured on :
**c.** Developing a strong wholesale distribution network for faster and lower cost expansion
**d.** Building high efficiency retail networks to secure long term access to consumers

**The privatization process announced by the Kazakh Government aims at reinforcing KMGI by combining complementary strengths of KMG and a potential investor:**

**1)** KMG operational and commercial capabilities:
**a.** Supply crude oil for refining and trading purposes;
**b.** KMG International - an energy bridge between Kazakhstan/China and Europe;
**c.** Advanced refining and petrochemicals production facilities and access to profitable distribution routes;
**d.** Well-established retail distribution capabilities;
**e.** International coverage of oil products trading
**2)** Financial capabilities of a potential investor:
**a.** Expanding Retail network to other prospective markets
**b.** Enhance the refining activity
**c.** Further optimization of the supply chain by acquiring / building new depots and terminals

The management believes that the developments mentioned above will result in an enhancement of the Group's ability to support its continuing operations, will improve the profitability and will allow taking advantage of the existing benefits of the Group.

In May 2015, the majority of working capital facilities in Romania and Switzerland were refinanced by a new syndicated facility. The total value of the revolving facility is USD 340 million, out of which 240m USD 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) administrated by BCR Romania. The advantages of this syndicated facility is a common pool of guarantees enabling higher utilization rate of the guarantees and its usage is better linked to KMG International specific activities.

### 3. ENVIRONMENT

Dated Brent 2015 annual average was USD 52.46/bbl (by 47% lower than 2014 average). During 2015 the crude prices remained at a low level in the market but still volatile. Dated Brent highest point in the year was USD 66.7/bbl reached in May while the lowest point was USD 35.6/bbl in December. The whole evolution of crude prices was driven by an oversupply in the market.

OPEC output was reestablished during the year at 30 million b/d. However this number was exceeded every month by 1-2 million b/d, adding additional volumes in the market. On top of that, US lifted the export sanctions for Iraq, which is prepared to export a capacity of 6 million b/d. In this context, the expectations for crude prices are to remain weak also for 2016 and to average just around USD 45/bbl.

A lifting of the embargo on imports of Iranian and Iraq crude resulted in additional volumes of alternative heavy crude which targeted the European market putting pressure on the Russian crude. The Urals differential reached in mid-November the lowest level in 3 years USD -2.45/bbl and an average level of USD -0.94/bbl in 2015 in line with 2014 average USD -0.98/bbl.

The European refinery margin had an excellent evolution during 2015 (on average $64/MT, 44% higher than 2014). The main factors that contributed to this increase were crude oil low prices and high demand in terms of products. European refiners had a competitive advantage vs. US, due to a narrow WTI-Dated Brent differential. This caused higher cracks on the European side. In particular, the gasoline crack had the most spectacular evolution, as the main contributor in the high margins.

The evolution of FX market was concentrated in 2015, mainly around the following events: Greek crisis, FED expectations to increase interest rates and weak Chinese macroeconomic data. The EUR started to depreciate against USD from 2014, when ECB continued the Quantitative Easing program in order to keep inflation under control and to reduce the high liquidity of EUR in the market. During this program, the interest rates decreased to negative areas. In addition the European currency was affected by the possible exit of Greece from the Euro zone. The US economy had a very good evolution during the year, especially in the unemployment area (decreased from 6.17% to 5%). In terms of inflation, their target is 2%. In this regard it was expected that the FED would raise interest rates in 2015.

However, due to poor Chinese macroeconomic environment this decision was postponed till December when it happened for the first time in almost a decade. The dollar was very strong during the year and after the FED decision to raise the interest rate it may continue to appreciate more against EUR. In reverse, in the Euro area, the quantitative easing program may move forward and put pressure on the currency.

| | | 2015 | 2014 |
|---|---|---|---|
| Brent Dated Average Price | USD/bbl | 52.46 | 98.99 |
| Ural Med Average Price | USD/bbl | 51.53 | 98.01 |
| Brent-Ural Differential Average Price | USD/bbl | 0.94 | 0.98 |
| Premium Unleaded 50 ppm FOB Med Average Price | USD/t | 457 | 905 |
| Diesel ULSD 50 ppm FOB Med Average Price | USD/t | 471 | 850 |
| RON/USD Average exchange rate | | 4.01 | 3.35 |
| RON/USD Closing exchange rate | | 4.15 | 3.69 |
| RON/EURO Average exchange rate | | 4.44 | 4.44 |
| RON/EURO Closing exchange rate | | 4.52 | 4.48 |
| USD/EURO Closing rate | | 1.09 | 1.22 |
| Inflation in Romania | | -0.93% | 0.83% |

## 4. CONSOLIDATED ACCOUNTS

The consolidated accounts prepared in accordance with IFRS are summarized the next chapter of this report and further analyzed in the following sections for each business unit (figures in USD million).
In addition to its IFRS financial results, KMG International Group is analyzing its consolidated financial position using Management Accounting principles, which represent a tool for analysis of day to day operations for forward looking decision making. The main additional topic brought by Management Accounting at Group level is the Current Cost of Supply principle, which supports the Group in reflecting the operating performance by eliminating from the Cost of Sales of the products sold during the reporting period 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 rather than the historical acquisition prices (under Current Cost of Supplies the Cost of Goods is not impacted by the opening inventories values).

Starting with 2015, management uses this method – also called replacement cost method - in order for investors to understand the operating performance of the Company excluding the impact of oil price changes from one period to another on the replacement of inventories. Current Cost of Supply (CCS) method it is used for disclosure purposes only, amounts disclosed are not separately reflected in the financial statements as a gain or loss. Current Cost of Supply Adjustment (COSA) - an adjustment to cost of sales, as difference in between the replacement cost profit (using CCS) and the operating profit under IFRS (i.e. historical cost operating profit), as a mechanism to match current earnings with the current costs of inventory and to provide investors with an estimate of the period's result under a current costs basis.


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 shall 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.

The 2015 COSA adjustment for Managerial Accounting on top of IFRS resulted in a positive result of USD 115 million at Group level (on a more simplified method used in 2014 as a proxy for the COSA, the estimated impact for 2014 was of USD 72.7 million).

The major part of the USD 115 million COS Adjustment refers to Rompetrol Rafinare (USD 79.47 million), while for the entire BU Refining (including Rompetrol Rafinare, Vega Refinery and Petrochemicals plant) it is USD 100.39 million. The adjustment related to BU Retail is USD 14.9 million, out of which USD 10.8 million refers to Rompetrol Downstream.

| | 2015 | 2014 |
|---|---|---|
| Net Revenues | 6,360 | 9,364 |
| Gross Profit | 334.5 | 353 |
| Provision and other reserves related to Litigations | (100.1) | |
| Net Result | (45.1) | (57.9) |

The Consolidated Gross profit incurred by KMG International Group during 2015, according to Managerial Accounting principles explained above, is USD 450 million and the Consolidated Net Profit is USD 70.4 million.

As at 31 December 2015, the Group posted provisions with litigations in amount of USD 100.1 mill for Rompetrol Downstream SA competition council law case (USD 29.6 mill) and Oilfield Exploration Business Solutions SA (formerly Rompetrol SA) law case (USD 70.5 mill). Excluding these provisions and reserves, the IFRS consolidated net result of the Group is profit in amount of USD 55.1 million as at 31 December 2015.

As furthermore mentioned in point 5 of this Directors report, Operations Review, Rompetrol Rafinare enjoyed a very good 2015 operating and technological year. This good performance has been furthermore sustained by a positive market. Consequently, Rompetrol Rafinare incurred very good financial results, reaching for the first time in the last years a fiscal gain, before forex impact. Considering the forex depreciation of the Romanian currency towards EUR and USD incurred in the last 2 years, especially in 2015, it is estimated that within the next period the depreciation will not furthermore continue. Therefore, in correlation with the Rompetrol Rafinare five years business plan, it was considered that within the next 7 years Rompetrol Rafinare will incur profits also according to Romanian Accounting Standards and therefore will benefit from the existing Fiscal Loss carried forward for a period of 7 years. Consequently, a deferred tax asset of USD 56.5 million was recognized for Rompetrol Rafinare. A smaller amount of USD 3.5 million was recorded for Rompetrol Downstream, based on the fiscal loss existing as of December 2015, to be carried forward in order to set of future fiscal profits. Additionally, USD 5.3 million deferred tax liability was reversed as a result of the provision booked for Oilfield Exploration Business Solutions SA (formerly Rompetrol SA) law case.

Regarding refinery margin level forecasts used for business plan, the management assumptions have been correlated with the JBC forecast (a worldwide research institute which is offering independent and unbiased expertise to businesses, governments and organizations operating in the global energy sector). JBC agency assumptions for longer-term market refining margins have been based on the following key assumptions:

- expected lower utilization rates at US refineries and decline in US shale oil output growth due to more tightened US crude price differentials
- an expected increase both in the degree of consolidation in the oil & gas industry and in the shut-down of inefficient, unprofitable refineries
- an expected delay and/or cancellation of several upgrading projects in Russia, leading to higher margins for Europe local refining units

The assumptions used for Company's business plan are estimated at a more conservative level than the JBC low crude price refinery margin levels, thus furthermore sustaining the assumptions used for DTA recognition.

KMG International partially provisioned the receivable to be collected by KMG Trading from Rompetrol Ukraine in amount of USD 15 million.

By deducting the above mentioned items the below results were obtained by the Group during 2015, from an IFRS perspective and from a Managerial Accounting perspective:

| | 2015 | |
|---|---|---|
| | Financial Accounting according to IFRS | Managerial Accounting |
| **Net result** | **(45.1)** | **70.3** |
| Add back Provision for litigation | 100.1 | 100.1 |
| **Net result before provisions and other reserves for litigations** | **55.0** | **170.5** |
| Net result from Provision for Rompetrol Ukraine | 15.0 | 15.0 |
| Net result impact from recognition of Deferred Tax | (65.4) | (65.4) |
| **Net adjusted result 2015 from operations** | **4.6** | **120.1** |

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

Key factors that contributed to the financial results were:

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

| 2015 | Refining | Retail | Trading | Non-Core and Others | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|---|
| Net revenues | 464 | 1,668 | 4,126 | 102 | 0 | 6,360 |
| Gross profit | 31 | 203 | 67 | 56 | (22) | 334 |
| Capex | 102 | 26 | 3 | 9 | (7) | 134 |

| 2015 | Refining | Retail | Trading | Non-Core and Others | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|---|
| Net revenues | 663 | 2,523 | 6,074 | 105 | (0) | 9,364 |
| Gross profit | (9) | 237 | 79 | 72 | (26) | 353 |
| Capex | 23 | 22 | 1 | 11 | (6) | 52 |

## 5. 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 1,015 fuel stations in 6 countries (Romania, Moldova, Bulgaria, Georgia, France and Spain), operated under "Rompetrol" and "Dyneff" brands;
- Upstream and Industrial Services;

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

| Refining & Petrochemicals | | 2015 | 2014 |
|---|---|---|---|
| Feedstock processed | Kt | 4,983 | 5,082 |
| Gasoline produced | Kt | 1,206 | 1,305 |
| Diesel & jet fuel produced | Kt | 2,684 | 2,631 |
| Motor fuels sales – domestic | Kt | 1,663 | 1,738 |
| Motor fuels sales – export | Kt | 2,022 | 1,990 |
| Sales petrochemical products | Kt | 149 | 153 |
| Export | % | 55% | 53% |
| Domestic | % | 45% | 47% |
| Gross cash refinery margin | USD/bbl | 4.62 | 4.53 |

Petromidia Refinery

Rompetrol Rafinare S.A. gross revenues reached USD 3.356 billion in 2015 decreased by 65% against 2014, due to the decrease of the international oil products quotations.

In 2015, the total throughput for Petromidia refinery was 4.950 million tons by 2.05% lower compared with 2014 when the total throughput was 5.053 million tons and the design capacity utilization was 76.48% lower by 6.58% compared with the last year. Both of these were caused by refinery turnaround program which took place from 11 October till 19 November 2015 (DAV in service) which was successfully executed by Rominserv. Nevertheless, Petromidia reached 4,950 million tons total processed feedstock during 2015, higher by 236 ktons than the 2015 budget, following innovative technological solutions applied during 2015.

Diesel yield reached in 2015 was 49.99% (in 2014 was of 48.8%), the highest ever reached in the refinery's history by 1.19% higher than the 2014 figure, the quantity of diesel produced being of 2.474 million tons. White products yield (valuable products) including components, reported to total feedstock processed as a percent of total feedstock achieved in 2015 was 85.7% (second year in a row when historical level was reached, compared with 85.69% reached in 2014. In 2015 Petromidia reached the lowest ever level of processing cost of ~16.7$/mt, below budget by 7.6$/mt and 4.4$/mt compared to the same period in the previous year, positively impacted by the exchange rate effect, utilities tariffs, higher energy efficiency and higher refinery run rate.

### VEGA REFINERY

In 2015, the total throughput for Vega refinery was 329 k tons, by 6.41% higher compared with last year when the total throughput was 309 k tons. The refining capacity utilization was 99.6% which was higher by 6% compared to the last year. The gross refinery margin improved in 2015 compared with the same period last year, the company's financial results were positively influenced by favorable market conditions resulting in higher cracks for petroleum products.

An environmental provision has been recognised in prior periods for Vega refinery for the cleaning of the oil sludge pools and restoration of contaminated land. During 2012 an evaluation report was issued by the third party expert estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 5 year period, a discounted cash flow cost estimate of USD 67.35 million has been provided by the Group. A 9.8% (2014: 9.9%) discount factor was applied for the discounted cash flow calculation, leading to no significant impact in 2015. Currently, the prequalification stage is in progress and considering the further bidding process and final contract negotiation, we expect start effectively works on the field in the last quarter of 2016 / latest first quarter 2017.

## PETROCHEMICALS

For the year 2015 the polymers production was lower by 5% compared to 2014, resulting from the Petromidia platform general turnaround.

## TRADING AND SUPPLY CHAIN SEGMENT

During 2015, KMG Trading has successfully continued the role of trading-arm of the Group, assuring all feedstock imports to the Petromidia Refinery and products exports in the abroad markets. Moreover, KMG Trading has strengthened its presence in the Asian Pacific Market, by trading 4 million tons alone in 2015, while also intensifying its efforts in the Eastern European market, with sales of crude oil in the region of 4.2 million tons and 1.9 million tons of products placed (from Petromidia Refinery and market sources), which is in total by 0.65 million tons higher than 2014. In the Black Sea and Mediterranean region, KMG Trading is known as a top player, being able to actively supply the market with all three low sulphur grades (Gasoline, Diesel, Jet), as well as Crude Oil. From financial results perspective, KMG Trading performed better than budget, main driver being the good performance on 3rd party business, considering better margin performance on Crude from KMG, despite lower volumes.

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 6/ton (in the absolute amount USD 140 million), by eliminating the third party handling/storage/transfer costs and commercial/technological losses. Despite the difficult start of 2015 year due to severe weather conditions for about one month and SPM decommission for another 20 days, it was a new record year from operational point of view, the crude oil total quantity handled via SPM was 3.82 million tons + 0.33 million tons alternative feedstock, having recorded a total of 23.9 million tons and 282 tankers operated at this terminal since start up in 2009.

## RETAIL AND MARKETING SEGMENT

In 2015, the Retail and Marketing segment covering more than 1000 fuel distribution points, managed to slightly increase in volumes compared to 2014, reaching a total of 4.72 million tons (2014 - 4.56 million tons) of products sold.

Rompetrol Downstream covering the Romanian market reached record sales in 2015 of 1.64 million tons, in line with the last year. Also, the cost cutting actions continued by Rompetrol Downstream during 2015 and implementation of a new business model have allowed Rompetrol Downstream to obtain savings in operating expenses by 18% versus last year (over USD 20 million).

During 2015, Rompetrol Moldova continued the development of the gas stations network, opening 7 New DOCO Stations. The overall volumes sold increased by 40% in 2015 compared with 2014: record sales increase in Retail by 34 % against 2014 and sales increase in Wholesale channel by 43% against 2014. Estimated Market Share increased by 7% in 2015 compared with 2014 and registered a record financial result in 2015 (net result increased by 136% versus last year).

Rompetrol Georgia kept the volumes in 2015 at the good level of 2014 (sales of 206 k tons). During 2015 USD/GEL exchange rate appreciation had significant negative influence on Rompetrol Georgia margins. In terms of GEL, Inland premium was increased versus 2014 by 13% whereas in terms of USD it was a negative margin influence. Decrease of crude oil price and good control of the operating expenses (lower by 12% versus 2014) were the indicators which helped Rompetrol Georgia to cover its significant negative exchange rate effect.


Rompetrol Bulgaria reached record sales in 2015 of 286 k tons, 80 k tons higher compared with last year, due to the Wholesale channels, where the volumes sold increased with approximately 60% compared with 2014 as a result of the a new commercial policy.

During 2015 the Group disposed 51% interest in Rompetrol France. An amount of USD 11.1 million was recognized for the 49% participation retained in Dyneff accounted for as an associate subsequent to the divestment.

### UPSTREAM AND INDUSTRIAL SERVICES SEGMENT

Rominserv, the Group's engineering company, have completed 47 projects during 2015. From these 47 projects, 40 projects have been developed within Rompetrol Group and 7 external projects (5 in Kazakhstan). All projects were completed within budget and 45 projects out of 47 were completed in time. Revenues increased by 72% versus last year, mainly from Capex activity.

In 2015, Rompetrol Valves Iaifo continued the cooperation with several companies such as GEA Germany, IBC Prague, OMV Petrom and acquired new customers from France, Italy, Austria, Bulgaria, Romania. In 2015, Rompetrol Valves Iaifo faced a descendent market trend, its turnover decreasing by 26% compared with the year 2014 (USD 5.8 million vs. USD 7.9 million). Starting to April 2015, special measures were applied to the company activity and personnel in order to decrease operational costs (lower by 29% versus 2014).
In 2015, Palplast continued to increase its turnover and also the market share. 2015 revenues were higher with 11% compared with 2014 due to higher pipe request and production, achieving the best results in the last years. Palplast also continued to reduce the energy consumption and technological waste on production process and to acquire raw materials at favorable prices. Volume of produced & sold pipe in year 2015 was of 3,787 tons, higher with 26% compared with 2014. Given the focus of European Union and of the Romanian Government for rehabilitation of irrigation systems from agricultural areas, Palplast continued to pay special attention to this segment even while, due to the source of financing, the funds are often blocked. Rompetrol Quality Control is an independent and competitive company on the laboratory analysis market, which grants its results as reliable proof for third parties and Group companies. In 2015, Rompetrol Quality Control (RQC) obtained a new accreditation by RENAR for sampling activity that is a specific standard which is allowing the company to enter and to develop a strategy in the sampling area in order to consolidate its overall market share and to increase the turnover and profitability from third-party customers. In 2015, the operational profit of the company increased by 34% compared with the year 2014 (USD 1.4 million vs. USD 1.0 million) due to a good control of the operating expenses (lower by 7% versus 2014) and positively impacted by exchange rate effect.

### EXPLORATION AND DRILLING SERVICES

In 2015, Rompetrol Well Services continued to face a downward trend compared with the last five years, due to low demand for well services negatively influenced by the sharp decrease of the oil price. In 2015 EBITDA decreased by 83% compared with the year 2014 (USD 1.3 million vs. USD 7.6 million), measures were implemeneted to keep all operational costs under strict control until the well services activity in Romania will be improved.

### DRILLING & WORKOVER AND MUDLOGGING DIVISIONS

In 2015, Drilling & Workover activity was significantly lower than 2014 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

In conclusion, KMG International Group had for 2015 the best economic results in recent years (Adjusted Group Operational Net Profit +4.6 million USD), despite the decrease in crude oil quotation to USD52.5/bbl in 2015 compared to USD99/bbl in 2014.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 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 that's acting in a volatile industry and is naturally exposed to a high variety of risks, KMGI is dedicated to a disciplined approach of risk management, to build 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 the right measured 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. ERM organizational structure determines management competence of decision-making and control in the field of risk management at all levels of the Group. Company'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 risk responsible 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 acknowledged 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 either 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 company.

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

### 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.

## 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 to secure alternative supplies at short notice with limited financial impact, widening the Group ability to efficiently use variable production recipes and efficiently managed the relations with key logistics suppliers. Also to extend 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 management of information that can have a low impact on a group level. 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 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 around the globe 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 high potential impact on overall Group results.

In 2015, the Group operated in sensitive areas of the globe such as Libya and Ukraine which were heavily impacted by social and political unrests. These markets offer greater growth opportunities but also expose the Group to related economic, political and social volatility.

The breadth of the Group products and portfolio and geographic reach help to mitigate our exposure to any particular localized risk to some extent. The Group focuses in 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. Regularly updates are made of 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

Compliance with laws and regulations in areas 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 global 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 taxation and other relevant legislation, and to ensure these are taken into account 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 and the commitment is sustained by the lack of fatalities incidents in the last 5 years.
The safety performance indicators achieved very good levels in 2015 in comparison with the target, as follows:

- The HSE index (50% Fatal Incident Rate + 25%Motor Vehicle Crash Rate+25%TRIR) recorded reached a value of 0.22% compared with the maximum target (threshold) of 0.75%;
- Total recordable injury rate (TRIR) achieved in 2015 a level of 0.42% compared with the maximum target (threshold) of 1.5%.

**Risks related to customer relations**

The strength of the customer relationships affects the Group ability to obtain better pricing and competitive commercial advantage. Failure to excel in building such relationships could negatively impact the financial position and the market 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 constantly identify changing marketing trends and build 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 overall risk management main objective is to minimise 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 company against the volatility of oil prices, a hedging program for Rompetrol Rafinare was implemented in 2011 and a hedging program in Rompetrol Downstream in 2014.

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock in case of Rompetrol Refinery, benchmark stock for Rompetrol Downstream, and zero stock 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. The routine hedging program for stocks was very important for 2015 as the company results were significantly protected by the oil price drop.

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 also had hedge operations for refinery margins. The European refinery margin had an excellent evolution during 2015 (44% higher level than 2014). In terms of Refinery Margin Hedge, the company recorded negative result on paper side but higher benefits from physical side. The net impact of the commodity hedges (physical result –gain- plus paper result – loss- for hedged stocks) was USD 17 million, loss (2014: net gain of USD 7.2 million). However the

company results were affected by the inventory losses related to the base operating stock in refinery but considering such stocks are constant in time, the loss is only on paper not on 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. In addition 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. 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.

## 7. OUTLOOK

The average headcount across Group entities during 2015 was 7,138 as compared with 7,599 during 2014. We employ best practices for attracting, retaining and motivating our employees, who are the principal contributors to the development of our Group. We are fully committed to our responsibilities for their development and for the communities in which we operate.

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.

During the month of May 2016, three companies of the Group (KMG International NV, Oilfield Exploration Business Solutions (former Rompetrol SA) and Rompetrol Rafinare SA) were notified by the Directorate for Investigation of Organized Crime and Terrorism ("DIICOT") that they have been included as a civil responsible party in a file initiated by DIICOT against certain individuals, regarding supposed actions taken during 1998 – 2003, and which might have defrauded the State budget. The DIICOT prosecutors have initiated a precautionary seizure over the movable and immovable assets owned by the companies. Due to early stage of the investigation, the Group's management cannot estimate the potential impact of the outcome if a criminal case will follow. At present, Rompetrol Rafinare SA and KMG International NV continue their activity under normal conditions.

# Summary of Significant Accounting Policies

These abbreviated consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") effective as of December 31, 2015, as endorsed by the EU.

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

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

The group's consolidated financial statements are presented in United States Dollar ("US Dollar" or "USD"), that is the functional currency of the Parent and is the currency of the primary economic environment and industry in which the Group operates.

## SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and of consolidation
The abbreviated consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2015.

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

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

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

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

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

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

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

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


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

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

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

When the Group acquired a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.
If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

## NON-CURRENT ASSETS, RECOGNITION AND MEASUREMENT

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

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

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

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the estimated useful lives.
Assets held under finance leases are recorded in the statement of financial position and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. Intangible assets consist of software and licenses and are amortized on a straight-line basis over 3 to 5 years.

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

## NON-CURRENT ASSETS, IMPAIRMENT

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is property, plant and equipment stated at revalued amount in which case the impairment loss is treated as a revaluation decrease.
When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless

the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### GOODWILL

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

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

### INVENTORIES

Inventories, including work-in-process are stated at the lower of cost and net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost comprises direct materials and, where applicable, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The following cost formulas were used to determine the cost applicable to different types of inventories:

- the weighted average method for purchased crude oil and petroleum products
- the first-in-first-out (FIFO) for supplies and materials.

### TRADE AND OTHER RECEIVABLES

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

### CASH AND CASH EQUIVALENTS

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to

known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

### REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sales of goods are recognised when delivery has taken place and transfer of significant risks and rewards has been completed. Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and discounts.

Revenue from rendering transportation services and other services is recognised when services are rendered.

### POST EMPLOYMENT BENEFITS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

### INCOME TAX

Income tax charge consists of current and deferred taxes. The charge for the current tax is based on the results for the period as adjusted for non-deductible and non-taxable items The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

### FINANCIAL ASSETS AND LIABILITIES

The Group determines the classification of its financial assets and liabilities at initial recognition. Financial assets are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at cost, including transaction costs.

Group's financial assets include cash and cash equivalents, trade and other receivables, unquoted financial instruments, and derivative financial instruments. Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts and trade and other payables and derivative financial instruments. For each item the accounting policies on recognition and measurement are disclosed in this note. Management believe that the estimated fair values of these instruments approximate their carrying amounts.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

# Abbreviated financial statements

Derived from the consolidated financial statements as of 31 December 2015



| Consolidated Statement of Financial Position | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 34,065,886 | 70,643,249 |
| Goodwill | 46,686,545 | 55,241,231 |
| Property, plant and equipment | 1,233,769,563 | 1,249,407,319 |
| Financial investments | 151,684 | 628,295 |
| Investments in associates | 19,794,569 | 19,710,585 |
| Interest in Joint venture | - | 13,091,575 |
| Deferred tax asset | 59,988,028 | - |
| Long-term receivables | 11,430,274 | 6,535,218 |
| **Total non-current assets** | **1,405,886,549** | **1,415,257,472** |
| **Current assets** | | |
| Inventories, net | 255,476,908 | 433,145,092 |
| Trade and other receivables | 537,831,728 | 708,794,981 |
| Derivative financial instruments | 1,426,695 | 35,248,166 |
| Cash and cash equivalents | 101,604,366 | 148,632,499 |
| **Total current assets** | **896,339,697** | **1,325,820,738** |
| **TOTAL ASSETS** | **2,302,226,246** | **2,741,078,210** |
| **Equity and liabilities** | | |
| Capital and reserves | | |
| Issued capital | 109,085 | 121,572 |
| Share premium | 2,631,512 | 2,631,512 |
| Other reserves | (4,147,517) | (5,760,890) |
| Additional paid-in capital | 2,020,199,790 | 2,020,199,790 |
| Effect of transfers with equity holders | 115,029,358 | 115,029,358 |
| Accumulated deficit | (1,051,391,685) | (976,083,770) |
| Translation reserve | (3,552,825) | 5,690,488 |
| **Equity attributable to equity holders of the parent** | **1,078,877,718** | **1,161,828,060** |
| Non Controlling interest | (302,553,025) | (332,578,703) |
| **Total equity** | **776,324,693** | **829,249,357** |
| **Non-current liabilities** | | |
| Long-term borrowings from banks | 392,901,861 | 215,420,357 |
| Net obligations under finance lease | 1,378,401 | 2,259,147 |
| Deferred tax liabilities | 3,256,305 | 16,673,292 |
| Provisions | 113,454,279 | 84,360,791 |
| Other non-current liabilities | 259,272 | 1,680,790 |
| **Total non-current liabilities** | **511,250,118** | **320,394,377** |
| **Current liabilities** | | |
| Trade and other payables | 726,997,256 | 1,047,246,494 |
| Derivative financial instruments | 1,261,960 | 997,356 |
| Net obligations under finance lease | 431,992 | 764,478 |
| Short-term borrowings banks | 284,885,227 | 542,426,148 |
| Provisions - current portion | 1,075,000 | - |
| **Total current liabilities** | **1,014,651,435** | **1,591,434,476** |
| **Total liabilities** | **1,525,901,553** | **1,911,828,853** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **2,302,226,246** | **2,741,078,210** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2015 and should be read in conjunction with the respective audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.





| Consolidated Income Statement | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Continuing operations** | | |
| Revenue | 6,359,848,215 | 9,363,679,304 |
| Cost of sales | (6,025,356,249) | (9,010,632,662) |
| **Gross profit** | **334,491,966** | **353,046,642** |
| Selling and distribution expenses | (181,131,775) | (207,124,625) |
| General and administrative expenses | (95,633,267) | (111,232,744) |
| Provision and other allowances related to litigations | (100,144,337) | - |
| Other operating expenses, net | (4,229,944) | 8,615,707 |
| **Operating profit** | **(46,647,357)** | **43,304,980** |
| Finance cost | (57,842,435) | (68,405,966) |
| Finance income | 5,979,892 | 3,428,937 |
| Net foreign exchange (losses)/gains | (7,029,924) | (6,723,502) |
| Share in profits of associates | 128,120 | 321,317 |
| Share of profit/(losses) of joint ventures | - | - |
| **Loss before income tax** | **(105,411,704)** | **(28,074,234)** |
| Income tax | 58,134,327 | (5,013,778) |
| **Loss for the year from continuing operations** | **(47,277,377)** | **(33,088,012)** |
| **Result after tax for the year from discontinued operation** | 2,205,095 | (24,838,267) |
| **Loss for the year** | **(45,072,282)** | **(57,926,279)** |
| Attributable to: | | |
| Equity holders of the parent | (75,466,247) | (21,264,958) |
| Non-controlling interests | 30,393,965 | (36,661,321) |
| **Loss Group** | **(45,072,282)** | **(57,927,965)** |

| Consolidated Statement of Comprehensive Income | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Loss for the year** | **(45,072,282)** | **(57,927,965)** |
| **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 | (9,255,800) | (5,678,662) |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax): | | |
| Actuarial losses related to defined benefit plan | (630,353) | (2,599,503) |
| **Other comprehensive loss for the year, net of tax** | **(9,886,153)** | **(8,278,165)** |
| **Total comprehensive loss for the year, net of tax** | **(54,958,435)** | **(66,206,130)** |
| Attributable to: | | |
| Equity holders of the parent | (85,352,400) | (29,543,123) |
| Non-controlling interests | 30,393,965 | (36,663,007) |
| **Total comprehensive loss for the year, net of tax** | **(54,958,435)** | **(66,206,130)** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2015 and should be read in conjunction with the respective audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

KazMunayGas International

## Consolidated Statement of Cash Flow

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Loss before tax from continuing operations** | **(105,411,704)** | **(28,074,359)** |
| **Loss before tax from discontinued operations** | **2,072,198** | **(26,628,222)** |
| **Loss before tax** | **(103,339,506)** | **(54,702,581)** |
| Adjustments for: | | |
| Depreciation and amortisation | 96,874,988 | 106,660,641 |
| Reserves for receivables and inventories and write-offs | 37,886,083 | (1,622,015) |
| Write off financial investments | - | 282,267 |
| Impairment and provisions for property plant and equipment | 34,569,286 | (99,951) |
| Other provisions | 37,799,522 | (4,875,613) |
| Retirement benefit charged to equity | 604,965 | 657,842 |
| Late payment interest | 3,932,125 | 14,670,108 |
| Interest expense, commission and bank charges and collection discounts | 32,579,791 | 36,497,251 |
| Finance income | (5,979,892) | (3,525,934) |
| Net loss from non-current assets disposals and write-off | (425,817) | (1,978,293) |
| Net result from sale of investments | (5,406,066) | 777,823 |
| Unrealised losses/(gains) from derivatives on petroleum products | (72,470) | (38,659,847) |
| Realized losses/(gains) from derivatives on petroleum products | 1,728,027 | (12,996,196) |
| Share of result of associates | (128,120) | (1,062,606) |
| Share of result of joint venture | - | 188,621 |
| Unrealised foreign exchange (gain)/loss on monetary items | (10,421,956) | (10,392,717) |
| **Operating profit before working capital changes** | **120,200,960** | **29,818,800** |
| Net working capital changes in: | | |
| Receivables and prepayments | 11,410,697 | 422,362,427 |
| Inventories | 154,791,181 | 118,368,199 |
| Trade and other payables | (248,219,887) | (374,017,080) |
| **Change in working capital** | **(82,018,009)** | **166,713,546** |
| Income tax paid | (5,554,057) | (4,649,057) |
| **Net cash provided by operating activities** | **32,628,894** | **191,883,289** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (84,590,000) | (61,735,045) |
| Proceeds from sale of property, plant and equipment | 532,770 | 2,225,762 |
| Cash from acquisition of subsidiary | 304,019 | 1,959,340 |
| Proceeds from sales of subsidiaries | 19,834,200 | 669,705 |
| Cash disposed through sale of subsidiary | (13,278,018) | (3,545,665) |
| **Net cash used in investing activities** | **(77,197,029)** | **(60,425,903)** |
| **Cash flows from financing activities** | | |
| Dividends paid to minority shareholders | - | (820,316) |
| Interest and bank charges paid | (33,527,232) | (37,795,249) |
| Interest and other financial income | 5,979,892 | 3,525,934 |
| Proceeds from long -term borrowings | 322,766,267 | 2,256,000 |
| Repayments of long -term borrowings | (107,067,460) | (52,239,000) |
| Movement in short-term borrowings | (189,682,173) | (120,616,991) |
| Repayments of finance leases | (929,292) | (3,450,532) |
| **Net cash from financing activities** | **(2,459,998)** | **(209,140,154)** |
| **(Decrease)/Increase in cash and cash equivalents** | **(47,028,133)** | **(77,682,768)** |
| Cash and cash equivalents at the beginning of period | 148,632,499 | 226,315,267 |
| **Cash and cash equivalents at the end of the period** | **101,604,366** | **148,632,499** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2015 and should be read in conjunction with the respective audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.



rompetrol KazMunayGas Group Member

| | 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, 2013** | **137,775** | **2,631,512** | **(951,922,764)** | **2,020,199,790** | **115,029,358** | **-** | **11,352,947** | **(295,215,338)** | **902,213,280** |
| Net loss for 2014 | - | | (21,264,958) | - | - | - | - | (36,663,007) | (57,927,965) |
| Retirement benefit | - | | (2,599,503) | - | - | - | - | - | (2,599,503) |
| Translation differences | (16,203) | | - | - | - | - | (5,662,459) | - | (5,678,662) |
| **Total comprehensive income** | **(16,203)** | | **(23,864,461)** | **-** | **-** | **-** | **(5,662,459)** | **(36,663,007)** | **(66,206,130)** |
| Hedging impact | - | | - | - | - | (999,431) | - | - | (999,431) |
| Dividends payable to minority shareholders | - | | - | - | - | - | - | (700,358) | (700,358) |
| Impact from Singapore acquisition | - | | - | - | - | (4,577,918) | - | - | (4,577,918) |
| Other changes | - | | (296,545) | - | - | (183,541) | - | - | (480,086) |
| **December 31, 2014** | **121,572** | **2,631,512** | **(976,083,770)** | **2,020,199,790** | **115,029,358** | **(5,760,890)** | **5,690,488** | **(332,578,703)** | **829,249,357** |

| | 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, 2014** | **121,572** | **2,631,512** | **(976,083,770)** | **2,020,199,790** | **115,029,358** | **(5,760,890)** | **5,690,488** | **(332,578,703)** | **829,249,357** |
| Net loss for 2015 | - | - | (75,466,247) | - | - | - | - | 30,393,965 | (45,072,282) |
| Retirement benefit | - | - | (630,353) | - | - | - | - | - | (630,353) |
| Translation differences | (12,487) | - | - | - | - | - | (9,243,313) | - | (9,255,800) |
| **Total comprehensive income** | **(12,487)** | **-** | **(76,096,600)** | **-** | **-** | **-** | **(9,243,313)** | **30,393,965** | **(54,958,435)** |
| Merger KMG investments | - | 18,500,000 | 788,685 | - | - | - | - | - | 19,288,685 |
| Share premium distribution | - | (18,500,000) | - | - | - | - | - | - | (18,500,000) |
| Dividends payable to minority shareholders | - | - | - | - | - | - | - | (368,287) | (368,287) |
| Hedging impact | - | - | - | - | - | 1,613,373 | - | - | 1,613,373 |
| **December 31, 2015** | **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** |

The abbreviated financial information is derived from the Consolidated Financial Statements as of and for the year ended 31 December 2015 and should be read in conjunction with the respective audited Consolidated Financial Statements. On the full consolidated financial statements an unqualified audit opinion was issued.

# 09 AUDITOR'S LETTER

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Building a better working world

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**Auditor's report**

***Introduction***

We have audited whether the accompanying abbreviated financial statements of KMG International N.V. for the year December 31, 2015 have been derived consistently from the audited financial statements of KMG International N.V., for the year 31 December 2015. In the auditor's report dated April 25, 2016 issued by Ernst & Young Accountants LLP, Amsterdam, The Netherlands (signed by J.J. Vernooij), an unqualified opinion on these 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.

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***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, 2015.

**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 abbreviated financial statements were derived and the unqualified auditor's report issued by Ernst & Young Accountants LLP, Amsterdam, The Netherlands (dated April 25, 2016). Our opinion is not qualified in respect of this matter.

Alexandru Lupea

On behalf of
**Ernst & Young Assurance Services S.R.L.**

ERNST & YOUNG ASSURANCE SERVICES S.R.L. (3)

Bucharest, Romania
June 24, 2016

KazMunayGas
International

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